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# THE PARIS BOURSE AND FRENCH FINANCE

WITH REFERENCE TO ORGANIZED  
SPECULATION IN NEW YORK

BY

WILLIAM PARKER, A.B. (Cornell) A.M. (Indiana)

SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS  
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY  
IN THE  
FACULTY OF POLITICAL SCIENCE  
COLUMBIA UNIVERSITY

NEW YORK

1919

Columbia University  
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## ERRATA

p. 66, line 6, \$82,000 should read \$72,500.

p. 112, line 4, "has" should read "have".

p. 112, line 17, "are given as reasons" should read "is given as a reason".

Some typographical errors in reference to the accenting, spelling, and capitalization of French and German words occur in the footnotes.



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## PREFACE

THIS study grew out of the difficulty of the writer in finding anywhere in print or in the words of financial practitioners a clear account either of the relations between the banks and the stock exchanges, or of the somewhat complicated methods employed by the latter in handling their enormous and highly significant business of speculation. Parts of four years' graduate study in Economics in the Universities of Indiana, Illinois, Pennsylvania and Columbia were devoted to this problem, and later, two years with an international banking firm in New York gave an opportunity for direct observation.

The author takes pleasure in acknowledging his indebtedness to the faculties of economics and philosophy of the above schools and to those of Cornell where his undergraduate work ended. Special acknowledgment is due to Professor E. R. A. Seligman for helpful suggestions and to Mr. S. F. Streit, Chairman of the Clearing House Committee of the New York Exchange, for many constructive criticisms and references drawn from his long and thorough knowledge of the subject.





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## INTRODUCTORY

THE author's original plan to cover in the following dissertation the stock exchanges of Berlin, Vienna, London and New York with the same degree of attention given to the Paris Bourse, was interrupted by illnesses and finally by the impact of the war which well nigh put an end to deliberation on subjects unrelated to it. It had long been a mystery to the writer why the great stock market of New York employed a system of settling its contracts so much at variance with the custom of all the great European bourses. The difference, not a technical one merely, as the actual methods are much the same both in principle and practice, consists in the relations of the exchanges to their respective money markets, New York settling every day the transactions of the preceding day, (Friday and Saturday morning sales lumped together in Monday's clearance), while in Europe, a fortnightly and monthly settlement is the rule. Such settlements in Europe, however, do not include the strictly cash sales which are settled there individually, as they occur, and with considerable latitude as to terms. In New York practically all transactions as between broker and broker are made "regular way", that is, are settled by delivery of shares and payment of cash on the following day. On the European bourses, the customers of the brokers who buy and sell for the account must decide at the close of every fortnight or month, as the case may be, whether they will take up, sell out, buy in, or carry over their securities. As the term market is a device for the purpose of facilitating the carrying of securi-

ties until placed, and the fixing of their value by speculative buying and selling, varying quantities, depending on the season, the size of the market, etc. are always carried over. In Europe, the holders secure funds for this purpose for the definite period between settlements, making and settling their loans *en masse* at the end of every such period, which is at the same time the date of the settlement between brokers and brokers, and between brokers and money lenders. In New York, hundreds of millions of dollars of stocks and bonds are also carried over on borrowed money, but entirely through separate individual transactions between customers and brokers, and between brokers and bankers. Conservative brokers borrow from the banks for this purpose, on the average one-third in call loans and two-thirds on time, for from thirty to ninety days or more, and lend to customers chiefly on call. In practice, however, these latter loans are seldom called if margins are maintained, but run indefinitely, sometimes for years.

In New York there thus exist two definite rates of interest for security loans—the call rate, which is unlimited by law (on sums over \$5,000) and which has gone in panic times over 100 per cent, and the time rate, limited, as are all other legal rates in New York State, to six per cent. This legal limitation has even been adduced as the reason for lack of a term market in this country on the European plan.<sup>1</sup>

Another legal prohibition based on popular suspicion has forced the short sale contract into different forms in this country and in Europe. Here, the short seller "borrows" the stock that he anticipates buying in the indefinite future in order to make delivery the following day, as required by the rules. This arrangement is made by the short seller's

<sup>1</sup> Warburg, *The Discount System in Europe*; vide Natl. Monetary Commission Pub.

broker by means of "long" stock in his own office, or with another broker whose customers are carrying securities on margin, and such loans go through the clearing house lumped together with sales without distinction.

In Europe, on the contrary, another method was adopted to conform to the law. The "bull" carrying over stock on settlement day sells his stock for cash to the capitalist who wishes to make a fortnightly or monthly loan. This is of course done through the broker, as in Wall Street. At the same moment and as part of the loan transaction, he contracts to repurchase it from the capitalist at the end of the term designated at a price slightly higher, say by one-third or one-fourth of one per cent, the difference being the amount of interest charged by the lender. On the next settlement day, if he still desires to carry his stock, the operation is repeated. The European short seller or "bear" having sold so many shares is entitled to their price, and with it he buys the shares for cash from the bull on settlement day, and resells for the next settlement, appearing to the bull in the guise of the capitalist.

The mystery of these important differences was solved largely by the investigations of foreign banks conducted by the United States Monetary Commission<sup>1</sup> and the subsequent enlightenment as to the overwhelming importance in Europe of the central reserve system of banking, with its unlimited power of note issue based on discounted bills. This observation applies especially to the continental countries of Europe, as in England unlimited note issue was obviously not contemplated by the framers of the Bank Act, and is obtained only by suspension of the latter by Parliament. Furthermore, some monetary difficulties of the present war were met in altogether another way—by the issue of small

<sup>1</sup> *Vide* publications U. S. Monetary Commission.



denomination treasury notes. In ordinary times, however, even in England instant resort to the central reserve of the Bank of England by embarrassed banks or individuals with proper security is always possible. This fact made it feasible for banks and others to employ considerable funds in loans on securities of fluctuating value for periods of as long as two weeks, and on the more stable securities for one month. On the continent, especially in France, where the use of checks long remained underdeveloped, flexibility of credits and security have been gained by the ease and safety of note issue and general acquaintance therewith. In England, on the other hand, the great use of checks economizes money reserves while the extraordinary development of the discount market with its international connections lessens the need for a more efficient apparatus of note issue. But the English system must be adjudged a failure in that it admits of comparatively frequent and violent fluctuations of the Bank of England's discount rate.

Until recent years another factor of importance in the making of these short term loans at a low rate has been the possession of large amounts of time deposits by continental banks, as contrasted with the demand checking accounts of American banks.

When the significance of the lack of a central reserve bank and of a discount market to which congested banks can turn for relief is fully realized, it is not difficult to see why American banks have been not only unwilling, but, indeed, unable to finance the Stock Exchange on the basis of all-time loans, even of so short a duration as one week, an experiment which was tried both by the big exchange and by the Consolidated. The fact was, as has been so ably pointed out by Mr. Warburg,<sup>1</sup> that the American bankers used the stock

<sup>1</sup> Warburg, "*The Discount System in Europe*," "*Defects and Needs of our Banking System*,"; vide *Essays on Banking Reform in the U. S.*, Proc. Acad. Pol. Sci., July 14.

market much as European bankers used their central reserve bank, as a primary source of ready cash in emergencies. It was not at all adapted to this use, of course, and served it only at the cost of periodic, more or less severe falls in prices, sometimes of certain securities at the foot of the favored list, sometimes of the whole market, with gradual recoveries as the suddenly withdrawn money slowly returned.

Since the establishment of the Federal Reserve System this antiquated arrangement has been done away with, but only to the extent that rediscountable paper is held in the banks' vaults, and drawn upon by them in time of need for rediscount. An inspection of the course of prices of fifty stocks,<sup>1</sup> half railroads and half industrials, from 1911 to 1919 does not reveal any striking modifications for the period since the inauguration of the new banking system. But the latter part of this period which marked the introduction of the new banking system was also the abnormal period of war. The testimony of downtown brokers is to the effect that bankers are now less inclined than formerly to make call loans and are equally backward in calling them. Stock speculations, however, have been discouraged in all countries throughout the war and the period has provided a strain on credit relations generally wherein stock market speculation has played a minor part. The ability of the New York money market, under the new dispensation, to support a prolonged speculative movement is still to be tested, though there can be no question that it has been enormously strengthened.

When discountable paper shall have attained such volume in this country as to be available for the absorption of most of the monetary shocks that come and go with the seasons, and with world-wide events not so cataclysmic as war, it is safe

<sup>1</sup> *Times Annalist*.

to say that a term market in the European sense, with a collective clearing of securities and money loans, can develop in New York.

But the banking difficulty is not the sole one to be considered in anticipation of such a project. There is the highly technical one of settling a whole fortnight's or even a week's dealings in securities, cash, and loans in a market where the weekly sales might easily amount to 10,000,000 shares, worth, say, \$800,000,000, and where the value of stocks currently carried on borrowed funds could easily reach \$1,000,000,000.

For what particular reason, the collective settlement was first instituted is obscure. It is obvious to every book-keeper that the reduction of accounts to balances and the settlement of the mere balances is a time and money saving device. Manifestly, where a group of traders were engaged daily in mutually balancing, interdependent purchases and sales, we may suppose that they resorted to the collective settlement, periodically for their mutual convenience, and that they made the settlement dates as far apart as they could prevail upon capitalists and bankers to finance them. Safety forbids the postponement of stock market settlements beyond a certain period, while economy of operation requires a certain accumulation of accounts in order to secure the full benefit of the extraordinarily small balances that are obtainable, as little as \$10,000 having been required in one instance in New York to settle transactions involving 204,000 shares worth \$12,500,000.<sup>1</sup> Generally speaking, however, deliveries are reduced to approximately thirty-five per cent of sales, and cash payments to ten per cent or less of the original contract obligations.<sup>2</sup>

<sup>1</sup> Pratt, *The Work of Wall Street*, 1903, p. 123.

<sup>2</sup> Cf. *ibid.*, p. 120.

Up to 1892, the New York Stock Exchange had no stock clearing house 'at all. All deliveries of shares and checks between brokers as well as between brokers and the banks, where securities were hypothecated and certifications made, were handled individually, every office having a swarm of messengers who sometimes worked hard all day, and at its close, left their office in exactly the same position as regards securities and cash on hand as when they had begun their day's work. Every afternoon, an army of these messengers carrying valuable packets of securities and checks would traverse the financial district, lining up, in long queues reaching to the street, at the wickets of the various offices, and blocking traffic for hours. The amount of certifications required of the banks had grown, by 1892, with the increase of business, to enormous proportions, and it was the threat of the bankers to shut down on certifications that finally induced the Exchange to institute a system of reducing totals to balances before settling.

The practice of overcertification, though illegal, grew out of the necessity of the brokers of financing purchases of stocks for their customers during the short interval from the time the broker received and paid for the stock and the time he delivered it to the purchaser and received his check, or if margin stock, from the time he deposited it with a bank and thus secured the right to draw his check on the latter. On a balance of say \$50,000 left by the broker with his bank, the latter allowed the broker to draw checks up to \$1,000,000, certifying them as requested, although the broker's deposit was far from covering the sums certified. The broker, however, was required to cover his checks at the close of the day, by deposit of checks received by him from his debtors, immediately upon receipt. This practice is now modified to the extent that the broker every morning contracts a daily loan with the bank for approximately the amount he will require for the day, giving his guaranteed note.



The Stock Clearing House, established by the New York Exchange in 1892, was and has remained to this date (March 1919) a comparatively simple organization. It receives "clearance" sheets and "tickets", recording sales and purchases of active securities, from the brokers every day except Friday, balances, and verifies them and returns to the member brokers statements indicating the balance of shares each has to deliver and to receive, if any, and the names of the brokers to whom deliveries of securities and checks are to be made, or from whom they are to be received. These deliveries are then made individually by the broker within a specified time. As to the differences between actual prices and the nominal settling prices, however, the Clearing House goes a step further. It not only performs the bookkeeping work, which, of course, is checked by each broker's office, but also receives the checks of the brokers who have debit differences, and indorses the drafts of all other brokers who have credit differences. As these debit and credit differences are always exactly equal, this is also in reality a bookkeeping credit device; but it requires the intervention of a bank (Manhattan Bank) and of the Bank Clearing House, through which the checks and drafts are in turn cleared.<sup>1</sup>

As will be seen in the following chapters, the settlement system of the Paris Bourse is much more complicated and complete; and this is true also of the Berlin and Vienna bourses, and of the London Stock Exchange from which<sup>2</sup> eight hundred to one thousand firms (out of about four thousand members) in good markets send in clearance sheets. The methods of these central financial markets were all adopted within ten years of their development in Frankfort, Germany, where the first well-authenticated system of clear-

<sup>1</sup> Pratt, *op. cit.*, p. 116.

<sup>2</sup> Hirst, *The London Stock Exchange*.



ing intermediate contracts in securities was established in 1867, though there had been partial clearings in Glasgow, Scotland, and Manchester, England, as early as 1848. The adoption of these methods does not seem belated when we remember that in 1815, securities of stock companies listed on the London Exchange numbered but 30, on the Paris Bourse but 20 and in Berlin 11.<sup>1</sup>

It was from the stock clearing houses of the European capitals that the New York Exchange obtained its data in 1892; but it could not adopt the term settlement under our then antiquated banking system, and this fact necessitated a series of modifications in details. Under the Federal Reserve System, established in 1914, with its consolidated reserves and enormous power of note issue not rigidly limited to a forty per cent gold reserve, and with the gradually developing discount market, the time has come when a more scientific and economical system of financing the purchase and sale of securities may be instituted. Under the system now in vogue, the banks and other lenders of money on call to the broker can, if the whole market is considered, demand on a day's notice the return of hundreds of millions of dollars of their funds loaned on securities. Upon receiving such a notice the broker endeavors to arrange an equivalent loan with his own bank or elsewhere. As brokers' loans are constantly being called as a result of their serving at least as a secondary banking reserve, or are being paid up by the broker, there results a constant daily shifting of loans from bank to bank, and as the securities deposited as collateral are sold, and delivered and repurchased and resold, there results an endless process of substitution of one hypothecated stock or bond for another, several substitutions frequently being made during a single day. In the panic

<sup>1</sup> *Handwörterbuch der Staatswissenschaft*. Article, "Börse."

of May 9, 1901, for instance, eleven substitutions were made in one loan.<sup>1</sup> All these transactions, with the contingent accounting routine, are made individually and daily, with messengers hurrying to and from the banks, delivering, collecting and exchanging packets of securities, clerks scanning prices, and figuring interest, and brokers absorbed in arranging loans and in drawing and depositing checks. Every morning, the "chain gangs" of the brokerage firms may be seen moving to the vaults where the packets of securities on hand have been carried the preceding evening and under armed guards returning with the paper fortunes to their offices; while in the loaning banks other hundreds of millions of hypothecated securities are stored nightly in huge steel safety vaults. All this handling of securities and checks is obviated under foreign clearing systems or reduced to a fortnightly or monthly movement, except in the case of cash transactions which however constitute a relatively small part of the total.

Furthermore, in addition to the movement of securities between the brokerage firms and the banks there are the daily deliveries of the clearing-house balances of securities among the brokers themselves, and of all securities as well on contracts that do not pass through the clearing house.

In Berlin and Vienna, where the evolution of the process of financing industry has proceeded furthest, the securities themselves or receipts therefor are exchanged between brokers, or between brokers and the banks at a central institution, of which both bankers and brokers are members—in Berlin, *Die Bank der Berliner Kassen Verein*, and in Vienna, *Die Bank der Giro und Kassen Verein*. Money loans on securities are also put through the clearing process, as shifts are made from bank to bank by the various brok-

<sup>1</sup> Pratt, *Work of Wall Street*, p. 192.

ers. At the end of the settlement period such loans appear on checks of a special color and are available upon receipt of notice by the bank from the Kassen Verein Bank of the deposit or transfer on account of the securities previously agreed upon as the pledge.<sup>1</sup>

In the words of Adam Smith, the capitalistic system of individual competition flourishes through the pursuit by the individual of his own profit, which works out on the whole to the general good. The very crown and summit of this system is represented notably in the functioning of the London and New York stock exchanges, where the decisions of the individual speculators and investors, swayed of course by their confidence in the security-marketing firms and their prior decisions, determine the direction and volume of the flow of capital into the innumerable fields of economic production. This unadulterated *laissez-faire* has seemed too haphazard to the German mind.

In no other countries are the banks so closely connected with the whole process of organizing, promoting and financing industrial enterprises of all kinds as they are in Germany and Austria. They are the most important members of the Stock Exchange. The Deutsche Bank, for instance, had at one time fifty representatives (now many less) on the Berlin Exchange, and the Dresdner Bank had from twenty to thirty members. In Germany there are no brokerage houses as in New York. Persons desiring to buy stocks or bonds go to their bank for information, and purchase or sell securities through it on such terms as may be agreed upon. These range from no margin at all in the case of a well-known customer, to fifty per cent or more in other cases, depending

<sup>1</sup> S. F. Streit, *Description of Methods of Centralization of Receipt and Delivery of Securities in Use in Paris, Berlin and Vienna*. Pamphlet.

upon the man and the security. Usually a margin of from twenty per cent to forty per cent is required.

The banks of Germany are practically the originators of all kinds of enterprises, taking great pride in the success of their operations, and having a good record, guided as they are by the ablest minds available. Having gained the confidence of investors to a high degree, they have found it possible to use, for the development of enterprises, the deposits of those to whom the shares are afterward sold. These enterprises they control through contract stipulations and representation on boards of directors enforced by votes of thousands of proxies entrusted to them by their shareholder-depositors. Also, of course, they have the custody of securities, the Dresdner Bank in 1909 having \$400,000,000 worth in its vaults.

This situation has long thrown into the hands of the German bankers a tremendous power of discretion to shape the course and flow of the surplus wealth annually produced by the German people and others whose accumulations they could influence. In 1908, 8 large Berlin credit banks controlled 74 per cent of the entire capital of the 421 credit banks of Germany. These banks, together with the Reichsbank with its \$58,000,000 capital and its immense prestige virtually dominated and coordinated German financial, commercial and industrial policy, and, with the aid of a few "personages", German political policy as well.<sup>1</sup>

In 1893, an exhaustive investigation of the whole question of stock and produce speculation in Germany<sup>2</sup> was made by a distinguished body of German financiers, economists and business men. As an outcome of their findings and as a result

<sup>1</sup> Parker, "German Banks and Stock Exchange Speculations," *Proc. Academy of Political Science*, Jan. 1911.

<sup>2</sup> *Bericht der Börsen Enquete Kommission.*



of violent agrarian agitation against speculation, a series of restrictive regulations were passed in 1896, 1908, and 1910 by the Imperial Government and the Prussian State Government, putting the Börse under the jurisdiction of the Berlin Chamber of Commerce and officializing its activities in the most approved Prussian style. These laws and regulations greatly restricted public participation in speculation, eliminating the smaller speculative element, and consolidating still more the power and resources of the larger banks as regards the marketing of securities and control of the Berlin Bourse.

These developments in German finance, while not necessarily synchronous with the adoption of a thorough-going settlement of cash differences, stock balances, and money loans and stock hypothecations between brokers and the banks, have inevitably facilitated the full development of the system, inasmuch as the struggle for accommodations in Berlin centers not so much as in New York between the bankers and the brokers, as between the banks and the Reichsbank.

It remained for the Viennese, however, to bring the technic of stock market operations to its full flower.<sup>1</sup> In Vienna, the bank of the *Giro und Kassen Verein*, as in Berlin, comprises in its membership both bankers and brokers. Like the Berlin Kassen Verein Bank, it goes further than the *Caisse Commun*, the clearing house of the Paris Bourse, in that it actually has the custody of the bulk of active securities traded in currently, and transfers them on its books only at every settlement from broker to broker to banker and *vice versa* as indicated on the clearance sheets and tickets, the percentage of such clearances of sales being much higher than in Berlin. Thus with the transfer of

<sup>1</sup> V. S. F. Streit, *op. cit.*

stocks, and cash reduced to the lowest balances, the making of bank loans and the giving of security therefor have all become mere bookkeeping credit transactions. In consequence, the name of the messenger boy is not legion. His work is done by a stroke of the pen.

Something of this nature is the plan now proposed for adoption by the New York Stock Exchange, in so far as it can be applied to its system of daily settlements. It necessarily involves a more intimate organization if not a closer relation between bankers and brokers than now exists, and foreshadows the appearance in New York of the fortnightly settlement which it must necessarily precede, and which the banks are already demanding, because it provides a more stable investment medium and eliminates the overcertification evil. The following quotation from Mr. S. F. Streit, Chairman of the Clearing House Committee of the Exchange, defines the immediate objective aimed at by the formation of a stock clearing corporation.

1st. The clearing of loans, whereby the advances of banks to brokers for the purpose of paying off loans is reduced to a minimum. At the present time when a loan is called which a broker desires to reborrow, it is necessary for him to secure credit from his own bank for the purpose of paying off the loan. It is proposed to have the banks send their securities to the Clearing Corporation where they will meet the representative of the bank loaning the money, and while the securities are in the physical possession of the Clearing Corporation the old loan is paid off and the new loan made, with such changes in securities as may be necessary by the brokerage house, thus eliminating any credit advances by a third institution.

2nd. The clearing of stock balances. The advantages are illustrated by taking the situation under the present clearing system. If a member buys 1000 shares of Steel and sells 900 shares, the Clearing House furnishes him with *an authorization*



*statement*<sup>1</sup> of a balance of 100 shares of stock to receive and pay for the next day. If, however, the member buys 100 shares of Steel and sells 900 shares of Southern Pacific, the present clearing system is of no assistance to him should there be no other transactions in the same stocks. It is proposed to furnish credit by the Clearing Corporation in such a manner that the proceeds of the delivery of the 900 shares of Southern Pacific will be used to reduce the debit caused by the purchase of the 1000 shares of Steel, so that the net credit extension required will be only that necessary for the payment of the difference.

It is estimated that at least sixty-five per cent of the present daily extension of credit by banks to brokers will be eliminated by this plan.

<sup>1</sup> Author's italics.

## CHAPTER I

### ORGANIZATION OF THE PARIS BOURSE

NEXT to the Bank of France, the Paris Bourse is probably the most important financial mechanism in France. It is the third largest stock exchange in the world. Listed on its different markets are some 2,000 varieties of stocks and bonds<sup>1</sup> whose nominal value before the war was estimated roughly at \$32,000,000,000.<sup>2</sup> The comparison of this vast total with the \$1,000,000,000 of local securities listed on the other exchanges of Lyons, Bordeaux, Toulouse, Lille and Nantes reveals the overwhelming superiority of the Paris Bourse among the stock exchanges of France. Whether the national wealth of France in 1914 was roundly \$59,000,000,000, as reported by the National Geographic Society, or \$83,000,000,000 as computed by Leroy Beaulieu in 1911, or \$57,000,000,000 as estimated by Levy,<sup>3</sup> the fact that some \$23,000,000,000<sup>4</sup> of it was in the form of French-owned, French-listed securities, not to mention French holdings listed only on foreign exchanges, is a striking revelation of the national importance to France of the institution where alone these forms of property claims may be bought and sold through an intermediary.

<sup>1</sup> *Cotevidal and Cour de la Banque et de la Bourse*, July, 1914.

<sup>2</sup> Cf. Neymarck, *Journal de la Société de Statistique de Paris*, Jan., 1915.

<sup>3</sup> Cf. Julhiet, *N. A. Review*, May, 1916, p. 735—"The War and French Finance." Also *vide* Neymarck, *Le Rentier*, July 12, 1913.

<sup>4</sup> *Journal of Economy*, Nov. 1915.

Just as the Bank of France has possessed a monopoly of note issue in that country,<sup>1</sup> the seventy members who since 1898 have constituted the *Compagnie des Agents de Change*,<sup>2</sup> as the official organization of brokers is called, has possessed a legal monopoly of the business of buying and selling for others public securities and securities susceptible of quotation (*valeurs mobilières*). This has been the case since 1720, except for a period during the revolution when the members numbered but sixty. It has long been a serious offense in France for anyone but an authorized broker to mediate between a buyer and seller of securities, for a commission. This somewhat medieval situation developed naturally in the days when commerce and trade were struggling for recognition against the noble and clerical land-holding interests.<sup>3</sup> It has continued, partly because of the enormous advantages of a single central market, partly on account of the fact that since the preponderance of its dealings has always been in French government securities, the government was interested in maintaining so influential a credit instrument effectively under its control, and partly because such agencies have always been a ready source of revenue.

The colloquial name of the *Compagnie des Agents de Change*, taken from the raised platform in the center of the Bourse on which the brokers stand, is the *Parquet*, and this name is applied as well to the companies of authorized brokers in the above-mentioned provincial cities, to whom is also extended by a sort of legal fiction, as far as their own locally listed securities are concerned, the monopolistic prerogative of the *Parquet* at Paris.

The title to the brokerage monopoly in stocks and bonds

<sup>1</sup> "The Paris Bourse," Cleveland Moffet, *Century Magazine*, March, 1904.

<sup>2</sup> Alphonse Courtois, *Opérations de Bourse*, p. 206.

<sup>3</sup> E. Vidal, *History and Methods of the Paris Bourse*, pp. 194-276.

has not, however, been either peacefully or wholly enjoyed by the official Paris Parquet.<sup>1</sup> From the earliest days of speculation, the poachers on its preserves have camped on its very doorstep. In the big hall of the Bourse building, in the shelter of its porticoes, on its broad flight of steps, and in the streets roundabout, these ubiquitous outsiders have traded with each other, with the outside public, and through the official brokers, even in stocks and bonds listed on the official market as well as in the always considerable though fluctuating number not listed.<sup>2</sup> Though constantly opposed and prosecuted by the Parquet and the authorities, they persisted in maintaining the "free market," as the dealings outside the official market are called, until, by 1893, the five hundred firms that then composed the unauthorized market were doing three-fourths of the total business of the Bourse.<sup>3</sup>

This startling success at last kindled the long-smouldering hostility of the Agents de Change into open war. They brought great pressure to bear on the government, and petitioned for a law abolishing altogether the outside brokers (commonly called *Coulistiers*, from their habit of trading on the outskirts of the Bourse crowd, the wings of a theatre in French being named *Coulisse*),<sup>4</sup> and making it a penal offence for any of them to carry on business. The Chamber, however, in 1893, passed a law putting a tax on Bourse transactions only, it being thought that this measure would force into the light and thus check the illegal transactions. It was found to have so little effect (from 1893 to 1897 the

<sup>1</sup> Robert Milles, *La Bourse de Paris*, p. 178.

<sup>2</sup> Émile Guilmard, "Coulisse et Coulistier," *Journal des Économistes*, May, 1900. *Le Marché Libre*.

<sup>3</sup> I. B. Brandreth, "The French Stock Exchange," *Bankers Home Mag.*, Sept., 1910.

<sup>4</sup> M. Freméry, *Des Opérations de Bourse*.



tax on transactions paid by Coulistiers was twice that paid by the Parquet) <sup>1</sup> that the Parquet members again took the offensive and engineered a tremendous newspaper campaign against the Couliste.

The press published biting articles against the outside brokers, many of whom from their methods of doing business were easily open to attack. It was shown that a majority of them were Jews and foreigners—mostly Germans, who were financed by Jewish and German capitalists. Accusations were made that they had conspired to depress the price of Russian and French rentes and thus injure the credit of the allies. Full advantage was taken of the Anti-Semitic movement, product of the Dreyfus case.<sup>2</sup> Under pressure of the popular clamor the Government passed a law requiring all persons dealing in officially quoted stocks to produce for each deal an official stock-broker's memorandum (the famous *bordereau*), subject to a stamp tax, besides taking other measures that will be referred to later, the whole being known as the reorganization of the financial market of 1893.<sup>3</sup>

In considering the remarkable institution thus described, an institution which has no parallel in any country in the world, two questions naturally arise in the mind of one not familiar with the French system: first, as to the possibility of an outside market attaining, under the very wing of the official monopoly, such extraordinary proportions; and second, as to the need felt by the powerful official monopoly of protecting itself against this illegal competition by an appeal to the National Government. The fundamental cause of this perpetual strife, a thing that exists on no other exchange to such an extent, is to be found in the peculiar character of the Parquet itself.<sup>4</sup>

<sup>1</sup> G. Boissière, *La Compagnie des Agents de Change*, p. 147.

<sup>2</sup> Vidal, *op. cit.*, p. 241.

<sup>3</sup> Cf. E. Friends, "The Paris Bourse," *Forum*, Oct. 1901.

<sup>4</sup> Cf. Boissière, *op. cit.*, p. 140.

The Compagnie des Agents de Change, though a monopoly, is a monopoly which operates under the strict and comprehensive control of the French Government.<sup>1</sup> All of its most important customary practices have been enacted into law. The rate of members' commissions is fixed by law. Only French citizens may become official brokers, and then only after acceptance by the Minister of Finance upon being nominated by a retiring member, or by his estate. The number of Agents de Change may be increased or decreased only by the Government. It is a misdemeanor for brokers to reveal the name of a client. No foreign government security may be admitted to official quotation without the consent of the French Government, which is not always given.

But the two most important provisions bearing on the Parquet-Coulisse mystery are, first, the "solidarity" of the Agents de Change, whereby all the members are held responsible for the liabilities of one toward both givers of orders and lenders of money, a unique feature that will be described later in connection with the credit facilities of the Bourse; and second, the rigidly enforced rule that under no circumstances may an official broker buy or sell securities for his own account. He is a commission broker only, an agent, and never a principal. If he should at any time receive an order to buy and an order to sell the same amount of the same security at the same price, he could not, under the rules, offset or "apply" the two opposite orders in his office. He must verify in the market the impossibility of obtaining a better price for either, with the aid of an official acting under the supervision of the Syndical Chamber, the name of the board of governors of the Compagnie.

This last rule, which is considered necessary in France for the protection of the investor, entirely eliminates from

<sup>1</sup> J. Combat, *Manuel des Opérations de Bourse*, p. 160.



the official Bourse that important class of speculative brokers, who under the name of jobbers form the backbone of the London Stock Exchange, and as room traders are responsible for the bulk of the dealings, at least on one side, in New York. This energetic and venturesome class often possessed of large capital, but debarred from the Parquet or unwilling to do a commission business solely, has from the beginning been the chief support of the outside, free market, the *Coulisse*.<sup>1</sup> Here they could legally buy and sell any securities on their own account without the payment of a commission, and here they also had from time immemorial managed to deal for others in Parquet securities, collecting a brokerage from both sides. For the Parquet had been constrained to concede to them, on account of their numerous and irrepressible dealings, the right of the so-called "Franco", *i. e.* a purchase and sale of the same security in the same market on the same day, under an obligation to pay a commission only upon the amount of the larger transaction, on whichever side it might be.

It might seem that the avoidance of the small commission of  $1/20$  or  $1/16$  of 1 per cent which they would pay on matched orders, or even double the amount due on single orders, would scarcely be sufficient incentive to the formation of so great an outside market, but it must be remembered that this small sum repeated many times on a multitude of transactions grows through the course of a session to a considerable amount. In all the large markets, such business is often done on a very small margin, the profit emerging from the enormous turnover. In addition, the outside brokers had always the profits of their speculative purchases and sales.

Naturally enough, the growing pressure of competition

<sup>1</sup> Cf. Boissière, *op. cit.*, p. 354.

among the *Coulisse* firms, due to their constantly increasing number, made them more and more reluctant to pay the *Agents de Change*'s commission, and impelled them to the alarming encroachments of 1893 on the *Parquet*'s commission business. This resulted in a certain advantage to the public through a broadening and bettering of the market for its securities, the spread between successive purchase and sale prices being theoretically decreased by one-fourth to one-half of the total commissions each way, but tending, of course, toward a complete supersession of the carefully safeguarded official market (*marché officiel*).<sup>1</sup>

This development of the outside market could have been prevented by the *Parquet* by the admission of the *Coulistiers* to their association, but they had neither the power nor the desire to take such action. Only the French Government could increase the number of official brokers, and only the Government could alter the Commission rule and allow official brokers to trade for their own account and profit, as was the practice of the *Coulistier*, or, as they call themselves, *Banquiers*. This change neither the French Government nor the French people were inclined to make. It seems to have long been a fixed idea in France that the integrity of the quoted prices must be maintained solely through the agency of the strictly commission broker, and this is one of the strongest claims of the *Parquet* to support for the continuance of its monopoly. It entirely overlooks the fact that the utility of a quotation as an index of current security values depends quite as much upon the number and amount of transactions at that figure as upon their genuineness. A broad and active market, *i. e.* one made by a large number of people trading in the same security, is the best guarantee of price integrity, not only because successive prices are

<sup>1</sup> Cf. Courtois, *Opérations de Bourse*, p. 206.

apt to be "close" to each other, but also because it is much less susceptible of manipulation than a narrow market however safeguarded. In no other important country is there the rigid separation of stock market men which obtains in Paris, and it is safe to predict that permanent peace will not settle upon the Parquet and Coullisse until dealers for their own account are admitted to a fuller participation in the official market.

The objections to this arrangement, however, do not proceed entirely from the French investor. The members of the Compagnie des Agents de Change are clothed with great financial and social prestige. There are many traders who do not attract either the personal or official attention of members of the Compagnie. Up to the early nineties, it was necessary to deposit \$20,000 with one in order to deal for the account, *i. e.* to speculate, and although this sum has since been greatly reduced, a good introduction is still advantageous to the prospective client. The fact that the price of each seat on the Parquet was at that period some \$300,000 (in 1898 also) <sup>1</sup> explains in a measure the aloofness of the official broker.

It must not be supposed, however, that the 70 Agents de Change personally transact the great volume of business that daily rolls through the official market. Each of the 70 brokers is permitted by the rules 6 clerks (*commis principaux*) authorized to negotiate purchases and sales. Thus the actual intermediaries on the Parquet may total 490, a number that compares favorably with the 500 to 600 brokers who ordinarily appear on the floor of the New York Stock Exchange.

It is rather the principle of "*solidarité*" which imposes upon the members collectively responsibility for the derelict-

<sup>1</sup> Vidal, *op. cit.*, p. 170.

tions of each that causes the official broker to be so careful both as to his clients, who are often carried uncovered for heavy amounts, and as to his associates, who have such power to involve him in their downfall. For this reason power is given to the Syndical Chamber to examine members' books at any time and to bring pressure to bear on those members who overextend their credit. Thus, the exclusively broker organization of the Parquet, the small number of seats, and the principle of solidarity have all combined to exclude the Coulissiers, financially or otherwise *personae non gratae*, from the official market.

The character of the official organization has also given rise to another class of stock-market men, distinct both from the Agent de Change and the Banquier who deals solely on his own account. They exist to some extent in every market, but are especially numerous and important in Paris. These are the "*Remisiers*", so called from the term applied to their remuneration, the "*remise*". This is the rebate or discount allowed them from the regular commission by the Agent de Change on the business they bring. It was said in 1892 that nine-tenths of the Parquet's business came through the Remisiers. There are grades of middlemen varying from the individual who brings in occasional small transactions to those who have desks in the Agent's offices or who have large suites of offices of their own, and who stand high in the favor of the Agent de Change and the "*Haute Banque*". Recently, the largest banks have come to overshadow all others in this comparatively modest function, collecting all over France thousands of orders that they send in a lump to the Parquet.

The Coulisse Banquiers have long acted as *Remisiers*, and often have large sums due them at the close of each settlement, the result of the business contributed to the various Agents de Change during the preceding period intervening



between settlements. This not undesirable activity on the part of the outside brokers was one of the main reasons for the tolerance extended to them by the official monopoly, but there were two other no less potent reasons. The monopoly of the Parquet has been held in the Courts to apply only to public securities of France and others susceptible of quotation. This left a considerable field where the operations of the outside broker were entirely legitimate, and where he could not be suppressed. These curb securities that for one reason or another were not listed on the official or main market exist everywhere, and are everywhere left to the curb broker.

But we find in Paris that the premier security of France, the *Rente Française*, has for many years enjoyed its best market not on the official Parquet, but on the *Coulisse de la Rente*, or Curb Market in Rentes, a sort of official annex market of the Parquet, tolerated in fact, but without standing in law.<sup>1</sup> When the tax on Bourse transactions was imposed, the Agents de Change supplied this Coulisse market with the blank forms required by the Government, but left them still without recourse against welshing on the part of traders: for it is the French law that unauthorized brokers deal in officially quoted securities cannot make binding contracts. The explanation of this seemingly anomalous policy on the part of the Agents de Change lies in the growing democracy of France. Through the force of impassioned appeals in the Chamber of Deputies and elsewhere, that the interest of a private monopoly must not transcend the needs of public credit, and through universal recognition of the value of the extended market for rentes on the Coulisse, public opinion has not only sanctioned but has even enforced this modification of the legal rights of the Parquet. Furthermore, there have been

<sup>1</sup> Vidal, *op. cit.*, p. 247.



important attacks on the principle of the monopoly itself, regardless of the securities to which it applies.<sup>1</sup> The very circumspectness of the Agents de Change, which prevents them from giving tips on price movements, tends to alienate them from the popular heart. The argument that the brokerage monopoly is medieval and unjustifiably oppressive meets a ready sympathy in modernist quarters. The specific political situation in the Chamber of Deputies had also to be considered. This explains why the Parquet postponed so long, and secured after only a stiff fight the enforcement, in 1898, of its rights against the expanding *Coulisse* of the early nineties to the results of which we now return.

The requirement of the production of a *bordereau* (procureable only from an Agent de Change) for each transaction, and the absorption of some of the most substantial outside brokers through the raising of the number of Agents de Change from 60 to 70 dealt the *Coulisse* of that day a crushing blow. Many *Coulistiers* emigrated to Brussels, London or Berlin and continued their business from those centers.<sup>2</sup> The status of the *Coulisse des Rentes* or "*Groupe des Banquiers en rentes Françaises*" as they now call themselves, remained unchanged, owing, of course, to their close alliance with the members of the Parquet. Those who remained of the true *Coulisse* accepted the conditions imposed by the Agents de Change upon delivery of the *bordereaux*, and found themselves thereafter possessed of a semi-official status (as recognized *remisiers*), with their contracts thus legalized and made binding, and in addition their right to deal in unquoted securities reaffirmed. They organized in two associations corresponding to the cash market and term market in which they had formerly been engaged, called respectively, "*Syndicat des Banquiers au Comptant*" and

<sup>1</sup> Vidal, *op. cit.*, p. 215 *et seq.*

<sup>2</sup> Friend, "The Paris Bourse," *Forum*, Oct. 1901.

"*Syndicat des Banquiers a terme*". The first consists of some 150 members, who must each show a working capital of \$20,000, and who negotiate cash transactions only. The second comprises some 110 members who are required to possess a capital of \$200,000, and who deal only for the settlement at the end of each month. There is no fortnightly settlement on the *Coulisse*; in both *Coulisse* markets, they have the power denied to the *Agents de Change*, of dealing for their own account, constituting themselves a counterparty (*contre-partie*) to the prospective buyer or seller, provided they so state to him before completing the transaction. For this sort of negotiation, they charge no commission, and many buyers and sellers are not loath to avail themselves of it.

For some time after this official pugnacity of 1898, things quieted down, but as the *Coulisse* slowly pulled itself together, misunderstandings and bickerings increased, until in 1901,<sup>1</sup> a voluntary agreement, the famous "*modus vivendi*" which is still in force, was arranged. The principal points of this agreement naturally referred to the *remise*, or rebate, which was to be allowed *Banquiers* by the *Agents de Change* when the former applied for the official *bordereau* to legalize their transactions in the officially quoted securities. For transactions in the time market to be settled at the end of the month, or on the 15th of each month, the two settlement dates on the *Parquet*, the *Banquier* receives a *remise* of 40 per cent of the commission, for continuation operations or carryovers ("*reports*" in French) 20 per cent, and for cash transactions 10 per cent. For certain other securities, largely Turkish, Serbian, etc. currently traded in on the *Coulisse* before the *modus vivendi*, 80 per cent is allowed. The *Coulisse* was also admitted to the Floor of the Bourse building.<sup>2</sup>

<sup>1</sup> Friend, *Forum*, Oct. 1901.

<sup>2</sup> E. Guilmard, *Le Marché Libre*.

Listed on these two semi-official *Coulisse* markets,<sup>1</sup> the formal organization of each of which closely parallels that of the *Parquet* described hereafter, are some \$1,-000,000,000 par value of securities as compared with the \$33,000,000,000 of the official list. In addition to these, there are still other securities not listed in any market and traded in by those who have now become the sole "free" brokers, those not connected with either *Coulisse* or *Parquet*, and constantly watched by the latter for secret violations of their official privilege. These however are of comparatively little importance. The "*Groupe des Banquiers en rentes Françaises*", having no legal standing, is not formally organized.

The *Parquet* like the *Coulisse* comprises two or, more accurately perhaps, three markets: the cash, the fortnightly term market, and the monthly term market for certain securities not dealt in for the middle month settlement. But the members of each form one official organization, the general powers of which reside in the General Assembly of all the *Agents de Change*. The special administrative power is delegated to a board, the *Syndical Chamber*, elected on the rotative principle. The chief executive officer, the *Syndic* is also elected by the general assembly. He makes annual reports and is subject to an auditing Committee.

This in brief is the main structural organization of the Paris Bourse. The 70 members of the *Compagnie des Agents de Change* with their adjunct 75 members of the *Groupe des Banquiers en Rentes*, the 110 members of the *Syndicat Française des Banquiers à terme*, and the 150 members of the *Syndicat des Banquiers au Comptant*, some 405 in all—825 if the 420 negotiating clerks are added—make up the mechanism, the functioning of which is described in the following chapter on technique.<sup>2</sup>

<sup>1</sup> Boissière, *op. cit.*, p. 149.

<sup>2</sup> *Ibid.*, p. 89. Also Buchère, *Opérations de la Bourse*, p. 6.

## CHAPTER II

### BOURSE TECHNIC

THERE is no financial district in Paris as there is in London and in New York. The various banks, main offices and railroads, industrial and financial institutions, are scattered throughout the city, connected with the Bourse only by some recently installed telephones and a troop of messenger boys. On the floor of the Bourse (the name applied to both market and building) which can accommodate some two thousand persons, are gathered in more or less distinctly marked groups the eight hundred and twenty-five Parquet and Coullisse intermediaries, the messengers, clerks, *remisiers*, and a sight strange to English-American eyes, the general public. For in France, the Bourse is a national market, in fact as well as in name, and every Frenchman may personally appear on the floor and overhear his order executed by his broker, a thing unheard of in the Holy of Holies of the "City" or Wall Street. There is no ticker service, but recent news of importance is posted on the bulletin boards, or hawked about by seedy vendors. Some twenty firms do the arbitrage business with foreign markets. These firms are said to make profits of up to \$200,000 annually. The market is open from twelve to three o'clock, the morning being devoted to the reception and preparation of orders.

Any amount may be negotiated in the cash market, especially very small fractions of rentes, though the law of 1904 forbids the listing of shares of less than \$20.00 par value. It is generally said that nine-tenths of the business in terms of capital is done in the term market, while nine-tenths of



transactions in "lots" changing hands occurs in the cash market.<sup>1</sup> Here there are many small transactions in a great variety of securities, made chiefly by people in moderate circumstances, France being a country of few millionaires and widespread thrift. Owing to this characteristic of the transactions it would be uneconomical, as will be seen hereafter, to institute a collective clearing, such as obtains in the time market. Negotiations for cash are usually at the average price, (*cours moyen*) a price equally distant from the highest and lowest of the session. Orders are also given "at the market" (*au mieux*), at a fixed price, and at the opening and closing quotations. Orders may also be given to be executed in the first quarter hour of trading (*à l'ouverture*) and at the last quarter hour (*à cloture*).<sup>2</sup>

To insure the integrity of prices of securities quoted in the cash market, they are entered officially throughout the session, as fixed, upon a certain number of sheets kept by employes of the Syndical Chamber (*service d'opposition*). These registers constitute the record of sales. Each record, containing a certain number of securities, is divided into three columns, the first two for bids and offers, the third for actual prices.

The quotations (*cote*) for the time market, on the contrary, are established after the Bourse session. The brokers meet; an aid of the *Syndic* (executive chief) calls in turn the names of the comparatively small number of securities negotiated therein. Each broker announces the prices at which he has traded. For "firm" deals four prices are quoted: first, high, low, last; for "option" deals, the high and low only. Finally the quotation service fixes the average price, upon which all inheritance transfers, commissions, taxes, etc. are based.

No record of the total daily, monthly or yearly trans-

<sup>1</sup> Cf. Buchère, p. 213.

<sup>2</sup> Vidal, *op. cit.*, *passim*.



actions is available for publication, for either the Paris or the London markets. Financial opinion in those centers for certain alleged reasons is heavily prejudiced against this feature of publicity, so much a matter of course in Wall Street. It is particularly paradoxical in France, the land of democratic finance, that public knowledge of these important figures, which must be approximately known to a few, is not insisted upon. It is a matter of no small moment whether a price quoted refers to one share or to five hundred. The information given to favored clients, by Agents de Change, or others also in a position to estimate total sales, may at times be of inestimable advantage to such clients, in proportion as ignorance of the situation may be disadvantageous to the mass of holders. The excuse sometimes given that such publicity would tend to promote panics, scarcely bears analysis. Clients become accustomed to every recurring set of facts, and discount them eventually according to their own good judgment. While now and then observation of large movements of shares may induce the public to participate, the primary effect, as in New York, would be to produce an active speculation and exploration as to its origin. If a selling movement was well founded, for instance, publication of sales might simply hasten a readjustment operation, which would occur in any event, and thus permit all holders a more equal share in whatever market there might be. Publication of amounts of sales also tends to prevent unloading by those having inside information which should have been furnished impartially to all stockholders. It is difficult to see how such secrecy can be other, in the long run, than a cloak for market rigging and manipulation, rather than an aid to genuine price fixing, which is proclaimed to be the great service of the official Bourse.

It must not be supposed that the Paris cash market,<sup>1</sup> which

<sup>1</sup> The following account of the cash and, in the next chapter, of the

is of considerable size, is analogous to the so-called New York, or American cash market. The latter is in reality a time market strictly comparable to the European time markets, except that the time between the compulsory collective settlements is one day rather than a fortnight or a month. In the cash market of Paris, each transaction is settled individually, within certain wide time limits, and settled ordinarily by cash and stock deliveries. Transactions are not by any means settled at once, or even within the following two or three days. For bearer securities a delay of 5 days in delivery is allowable; 10 days is often taken. For registered securities, a delay of 15 days is possible, and in the case of certain insurance companies, *etc.* where the consent of the board of directors to the new stockholder is required, 8 days more. So packages of securities are constantly being received and prepared in brokers' offices for delivery on previous cash transactions within the above mentioned limits of delay. To facilitate these deliveries between brokers, which of course occur daily, an institution called the *Chambre de Compensation* (settlement service) has been organized. Every morning from 9:45 to 11:15, the brokers send to the *Salle de Compensation* (settling room) the securities they have on hand to deliver, accompanied by a memorandum (*bordereau*). This memorandum is subject to a tax, collected by means of a stamp which must be affixed to the memorandum for the benefit of the Parquet fund, or bank (*Caisse Commune*), which will be described in the Chapter on Credit Facilities. This tax or due is estimated to be about 5 per cent of commissions received. The memorandum itself states the nature, amount and due date of the

term settlements, follows closely the excellent and unique exposition of M. Boissière, *La Compagnie des Agents de Change* (1908), pp. 177-304. Cf. J. Combat, *Manuel des Opérations de Bourse* (1913), pp. 193-274. See also *Manuel des Agents de Change, Banque, Finance et Commerce* (1893), and also *Supplément du Manuel* (1902).

securities, and must agree with the one given by the seller broker to the buyer broker the day after the sale.

The *Salle de Compensation* is specially furnished with cashiers' desks (*cabines*), one for each Agent de Change, and each with a wicket at which sits a clerk (*commis*) during the entire time. He receives deliveries, and after verifying the bill (*engagement*) with the attached memorandum (*bordereau*) and counting and verifying the securities, he makes payment. Each office likewise sends a clerk (*garçon de recette*) to deliver the bundles of shares and receive payment.

The payments, in order to do away with unnecessary cash movements, are in the form of tripartite, perforated green checks, obtained in standard blank form through the Syndical Chamber's agency. The paying broker's clerk retains the stub (*souche*) of the check as a control. The selling broker's clerk keeps the voucher duplicate (*fiche*) as a receipt, and delivers the check proper (*talon*) to a representative of the Syndical Chamber who presents it at once to the bureau of current accounts established in the Bourse itself, under the supervision of the Secretary General.

The employes of this bureau, referring to the data on these checks continually presented to them, make the corresponding debit and credit entries to the accounts of the various brokers. In an hour the current account of each broker is closed, and his credit or debit balance established. Each Agent de Change carries an account with the Bank of France, which through a previous arrangement with the Compagnie des Agents de Change aids the settlement as follows:

Each debtor broker draws a special yellow check on the Bank of France for the amount he owes, to the order of the Caisse Commune. The Caisse Commune then draws its checks upon the Bank to the order of the various creditor

brokers for the amounts due them, the total of which must obviously equal the total of checks drawn to the Bank's credit, as they relate to the same transactions. Then the Bank simply debits and credits upon its books the accounts affected, while the special account created with the Caisse Commune is always exactly balanced. Thus the settlement of immense sums is effected without the least movement of cash.

For the purpose of verification, the bureau of current accounts sends to each broker a daily statement of his account, and a general statement of all balances due the Bank. The latter returns it with certification that it conforms to the balances of the yellow checks. A third statement is deposited in the archives of the Syndical Chamber. Brokers may settle otherwise, outside, by cash or agreement, but if by check on the Bank of France, the check must be a blue one. This process, which is carried on every open day, applies only to the cash market. The term settlement or liquidation, as it is called, though based on the same underlying principles, is much more complicated in practice and takes place only at the middle and end of each month.

Commissions, though varying with the market and the security traded in, average a little less than in Wall Street. In the cash market, one-tenth of one per cent is charged on all except litigated securities, for which one-fourth per cent is required. For the monthly settlement a charge of one-tenth to one-twelfth of one per cent is made, totaling one per cent or a little over if a security is carried through the year (12 successive liquidations). In the market for securities settled fortnightly, one-tenth of one per cent is the prevailing rate.

The obligation of the brokers to guard and collect coupons is an interminable source of expense and trouble, owing to the large number and variety of securities, the dispersion of the paying companies' offices, and often the pettiness of



the individual amounts collected. The Syndical Chamber has established a central bureau for receiving and cashing coupons. It also pays calls on partly-paid stock when properly covered. Brokers deposit the coupons, or often the certificates on which the dividend is due. The clerks of the bureau stamp them with the registered number of the broker, and send them out for collection by its dozens of receipt boys (*garçons de recette*). In forty-eight hours the amount is credited to the broker by means of a rose check at the *Chambre de Compensation* at the same time that he receives the green checks of his debtor colleague.

Furthermore, in order to simplify the process of settling security balances, the Syndical Chamber has another arrangement with the Bank of France by which the latter opens to the *Agents de Change* special deposit offices for securities. Receipts given by the bank are at once received by the Syndical Chamber, which gives in return its own receipts (*récépissés*). These receipts pass from hand to hand, from broker to customer, and especially between offices on liquidation days in lieu of the actual certificates. Securities so deposited must be in packages of twenty-five shares (*actions*), or twenty-five bonds (*obligations*) which are the minimum amounts dealt in on the term market, or 2,500 francs of *rentes*, or the minimum amount of foreign government securities dealt in for the account. The Bank of France receipt deposited with the Syndical Chamber can be withdrawn only when the *récépissé* surrendered therefor bears the name of an official broker as its last endorser.

In 1912, the total separate bundles of securities held by the Bank of France was 863,607, the number of certificates 13,462,309, and the value of the above at prices of December 24, 1913, over \$1,600,000,000. Those deposited by brokers are not stated separately, but may be supposed to constitute a very large part.



## CHAPTER III

### BOURSE TECHNIC (*Continued*)

#### THE TERM SETTLEMENTS

IN the term market, there are no transactions at the "average price", this being ascertained at the close of the session for other purposes. In this market, the purchaser of securities has, unless the contrary has been agreed upon by the contracting parties, the so-called right to discount (*droit d'escompte*), i. e. the right to demand immediate delivery of the securities upon payment of the purchase price. It is sometimes used, though less than formerly, by market leaders to embarrass short sellers, and force a rise. However, as such securities are delivered only four days after notice of calling has been given, and after a period of at times six or seven days has elapsed, it would be useless to call after the tenth of the month for the *medio* settlement, or after the twenty-fifth for the *ultimo*, as the settlement at the end of the month is known.<sup>1</sup>

Unlike the situation in Wall Street, it is entirely legal to trade in options (puts, calls and straddles, etc.) in Paris, where they have great popularity on account of the small capital required for large transactions. The almost endless complications and importance of such options have brought out a volume devoted to their explanation.<sup>2</sup> No option

<sup>1</sup> Cf. Buchère, *op. cit.*, p. 257.

<sup>2</sup> Vidal, "Le Stelage," *Congrès Valeurs Mobilières*, Paris, 1900.

contracts may be made for a longer period than two months (second or fourth liquidation) in either term market.

Option contracts *may* either be converted each day at two o'clock into "firm" (regular) contracts, or be abandoned. They are dealt in for the day after the fifteenth for the medio liquidation, and the day after the last day of the month for the ultimo. They *must* be converted or abandoned by 1:30 o'clock of the day before the liquidation for which they were contracted.<sup>1</sup> All firm transactions, *i. e.* ordinary purchase and sale contracts in the term markets, must be for the next settlement. For French Government securities, shares of the Bank of France, of the Crédit Foncier (national land banks), and shares and bonds of certain French railways, settlement is due at the end of each month, (*ultimo*). For all others settlement is made at the end of the month, and also at the 15th, (*medio*) of each month.

All through the fortnight or month, the Agents de Change have contracted with each other on behalf of their many clients. Their books are filled with open debit and credit accounts, at times with enormous balances both of securities and cash in favor of or against many of their clients. No individual, material guarantees are required by brokers from each other. Each one is supposed to be fully protected as to his client buyers or sellers, by cover, (about ten per cent) or by satisfactory guarantees, and to be responsible for his contract in any case, as will be seen later. In case of panic, the Syndical Chamber has the power to forbid brokers to sell for clients, except in liquidation of a bull position, unless the latter provide shares for immediate delivery.

For the ultimo liquidation, by which clients settle accounts with the Agents de Change, and the latter with each other,

<sup>1</sup> Buchère, *Opérations de la Bourse*, pp. 250, 299.

and by which the clients through the Agents de Change settle with the *reporteurs* (lenders of money up to full market value on stock), five days are required—the 30th, 31st, the 1st, 2nd, 3rd and 4th. For the medio where the same operations take place, four days are needed—the 15th, 16th, 17th and 18th. This settlement of the brokers with each other and with the *reporteurs* is properly called the central liquidation. For this settlement the facilities of the cash market may not be used, all time transactions, without exception, being required to go through the *liquidation centrale*.

Some of these time transactions are entered into only for the medio settlement, some, like those in Government rentes, for the ultimo settlement only, while other shares are traded in for both accounts. All time contracts, however, are eventually liquidated at one or the other of these collective, compulsory settlement periods.<sup>1</sup>

The first day of the settlement is the day of general liquidation and carry-over operations (*reports*). The second and third days are devoted to office work, statements of accounts, straightening out of books, establishment of balances of differences of both securities and cash. For the medio settlement, (15th-of-the-month), a single day suffices. The day before the last day of the settlement, called “debtors’ day,” the client debtors deliver securities or settle their cash debit balances with the brokers. The last day, called creditors’ day, the brokers, through the Syndical Chamber, exchange the securities and credits that have been received by them, and further distribute them among their client creditors.

In order to simplify the settlements as much as possible, and to hold to a minimum the cash payments for securities, several practices have developed auxiliary to the preparatory book-

<sup>1</sup> Cf. J. Combat, *Manuel des Opérations de Bourse*, pp. 193-274.

settling process which precedes the transfer of credit and securities. One of these processes has to do with the balancing of securities, and is known as a "*compensation*". It occurs between a customer and two or more brokers, when the former has bought and sold similar shares through different offices. To obviate what would be in effect delivering to and receiving from himself, he sells at the making-up price (*cours de compensation*), where he has bought, and buys up to a similar amount where he has sold, until only the balance of his purchases or sales remains to go through the settlement. These orders are marked "for bookkeeping purposes only" and are simply entered on the brokers' books, not executed in the market.

The complement of this process is called a "*délégation*" and has to do only with cash or credits. It is a draft drawn by a customer upon a broker who owes him, in favor of a broker who is his creditor. A special blank form is prescribed for this transaction by the Syndical Chamber. As in all collective settlements, there must be some common price fixed for each security. On the Paris Bourse, this price, called the compensation price, is usually the closing or cash price of the security in question at the end of the period intervening between settlements, and, of course, may be either higher or lower than the compensation price of the preceding and following settlements. It is fixed by the respective syndical chambers on both Parquet and Coulisse. The differences between this price and the various market prices, at which bargains have taken place, constitute the losses and gains of the buyers and sellers, or, as they are called in Paris, givers of orders (*donneurs d'ordres*); for the name client is reserved for another class which, on the Parquet, occupies a place unique in the stock exchange of the world.

This class, which the French call "*reporteurs*", and



"*clients*", consists of capitalists, banks, railroad and industrial companies, *etc.*, who loan their funds for fortnightly or monthly periods, on securities up to the full extent of their market value. They act through the brokers almost altogether, trusting to their judgment in the selection of the borrower, usually one who wishes to "carry over" stock, bought or sold short, to the next settlement day. Inasmuch as the brokers, as will be described fully in the next chapter, are collectively liable for the huge sums loaned through them individually to their order-giving customers, they are obliged to give a prominent place in the settlement to the *reporteurs*, as well as to their commission-paying friends.

The *reporteur*, as does also the short seller (in regard to his intentions) advises the Agent or *Couliissier*, some days before the liquidation, of the amount he wishes to invest. He receives from the Agent a memorandum stating the nature and amount of securities reported and giving a receipt for them. The securities are usually held by the Agent (or rather by the Bank of France to his account) for the *reporteur* until the next settlement. The *reporteur* is required to give two days notice of withdrawal of funds preceding liquidation.<sup>1</sup>

In the cash market, securities, owing to their great number and to the widely varying amounts and denominations of certificates which are dealt in, are not settled. The settlement covers only the cash and credit balances. But in the time markets, both are "*compensated*". This necessitates the carrying on of two simultaneous processes in the bookkeeping work that precedes and accompanies the central *liquidation* (settlement) between the brokers. One of these processes has to do with the recording, accounting, and balancing of the securities involved in the period's trans-

<sup>1</sup> Cf. J. Combat, *Manuel*, p. 236.



actions, preparatory to their final acceptance or delivery, and the other with a similar handling of cash and credits. Work is carried on in the brokers' offices along these two parallel lines simultaneously.

To facilitate the handling of the time transactions effected in the period of a liquidation, the Syndical Chamber has prescribed the keeping of an auxiliary book by each broker, called "Register of Brokers". In this register a double page is devoted to each of the sixty-nine colleagues of the broker in question. The left page, divided into a great number of vertical columns, corresponding respectively to the securities negotiated at *terme* (on margin), is used for purchases. The right page, similarly divided, is devoted to sales. All operations entered on the daily account books of the broker and his clerks are carried to this register, the sales of the broker being carried to the left page headed by his name, and entered in the column accorded to the security sold to him. Purchases are carried in a similar manner to the right page of the broker affected, and recorded under the proper security heading.

If only these data were used as a basis of settlement, each broker would deliver to and receive from every other broker immense amounts of many securities, when perhaps his final position would prove to be without change, so far as securities were concerned, or with a small credit or debit balance. The simplifying process is, therefore, carried further. Since on the day before the day of liquidation, entries in this register, mentioned above, are provisionally stopped, the addition of the sums inscribed in the different columns gives the total credit and debit amount of each security of the broker in question in relation to each other broker.

Subtraction of the lower from the higher total of each security gives the credit or debit balance which one broker

has against each of the other sixty-nine brokers for every security in which he has dealt. The obtaining of this elementary balance is the first step in the bookkeeping work of the settlement. This done, the next step is to transcribe these elementary balances into a second note book or ledger (*brochure*), each sheet of which is used entirely for one security. In the middle of this sheet the names of the brokers are printed, one under the other, in alphabetical order, as shown below. Opposite the name of each broker the elementary balance previously obtained is entered, buyer balance on the left, seller balance on the right.

## RIO TINTO

	Brown et Cie.	200
50	Jean Paul	
150	Rousseau Frères	

These elementary balances taken off the day before the day of liquidation are not definitive. They may be modified in one way or another by the operations of the next day (the first day of liquidation), or by reports concluded the same day, or by the *compensations* described above. The provisional elementary balances thus obtained are at once corrected by taking into account these superseding modifications.

Under the head of each security and at the right of the name of the broker to whom sold, is placed the number of shares which the broker has to deliver; similarly, the shares to be taken up are grouped on the left. The difference between the total of the two columns gives the net credit or debit securities balance of the broker toward his colleagues

*en masse*, or toward the syndicate. In case the two totals are equal, the broker has neither to deliver nor receive the stock in question. This second step gives the total balance of each security to be delivered. It is easy to see the great simplification effected by this process, which leaves the position of the broker exactly the same as though he had settled his stock or bond account individually with each of his confrères in turn.

The third step is taken with the help of the Syndical Chamber which substitutes itself for each Agent de Change

LIQUIDATION SHEET. (Reduced to 3 agents and 3 securities)

M. FONTAINE

M. FONTAINE

	3% rentes	Rio Tinto	Rus- sian 5%		3% rentes	Rio Tinto	Rus- sian 5%
Jean Paul . .	75			Jean Paul . . .		50	50
Brown et Cie . . .		200		Brown et Cie . .	75		75
Rousseau Frères . .	25		50	Rousseau Frères .		150	
Balance bought. . .			75	Balance sold. .	25		
	100	200	125		100	200	125

in settlement of his account with the other sixty-nine. For this purpose each office transmits to the office maintained by the Syndical Chamber on the evening of the first day of the mid-monthly liquidation, and on the morning of the second day of each end-of-the-month liquidation, a sheet called "liquidation sheet" reproducing in compact form the data carried to the *brochure*, mentioned above. This sheet is divided vertically into two parts, each part containing as many vertical columns as there are securities comprised in the liquidations. All the elementary seller balances are inscribed in the column to the right devoted to the security in

question, opposite the name of the Agent de Change who must make delivery. All the elementary buyer balances are inscribed on the left in the column given to the respective security opposite the name of the Agent de Change who must receive the security. To escape any error which would delay the normal progress of the liquidation, the brokers' clerks check these elementary balances. If a comparison of the total buyer and seller balances reveals a buyer balance, it is carried to the foot of the seller column; and *vice versa*, if a seller balance is found. This process is completed for all the securities on the sheet. The Syndical Chamber is thus furnished simultaneously with the sheets made up by the seventy offices. The liquidating clerks of the Syndical Chamber immediately undertake the final step in the settlement of share accounts. They take account of only the total debit or credit balances in each security of each broker. These sums are transcribed upon the liquidation sheets of a large "format", of the same type as the sheets turned in by the offices, on the right of the name (in the center) of the Agent de Change under the proper security heading if it is a seller balance; at the left of the name of the Agent de Change, if a buyer balance. Adding column by column, that is to say, security by security, the clerks of the Syndical Chamber must find the totals equal, since the securities sold are also the securities purchased. This work must be finished the evening of the first day of liquidation for liquidations of the fifteenth of the month, and the morning of the second day for the end-of-the-month liquidations. It only remains to bring together the Agents de Change who are actually to deliver and those who are actually to receive.

The Syndical Chamber clerks set off (*rapprochent*) for each security successively the offers of and demands for shares. They make the quantities to be taken up agree,



cancel (*biffent*) upon the sheet the names of the Agents de Change whose obligations to deliver or receive securities are settled by offsetting credits (*servis*) and those "rung out" (*libérés*). They then indicate upon tickets (*tableaux*) sent to the offices of delivering Agents de Change the next day, the names of the colleagues in whose names the deliveries must be prepared.

There is left now only the material delivery of the securities. This last task is effected through the mediation of the Syndical Chamber. In each office, the packages of deliveries are prepared, account being taken of the tickets delivered to them from the Syndical Chamber office. If these are registered certificates they are transferred to the name of the buying Agent de Change, or converted into bearer securities, to be passed over to him to make, within ten days, a final transfer to the name of his client purchaser.

Bearer securities are divided into packets containing the least quantity negotiable in the time market. The certificates are delivered to the Syndical Chamber before noon of the morning of the last day of liquidation, accompanied by a memorandum (*bordereau*), or list of contents, names, *etc.* Receipts (*récépissés*) endorsed with the name of the Agent de Change may be, and usually are, substituted for the actual certificates. In the afternoon of the last day of liquidation the certificates and receipts, which in the morning have been stored in the delivery room of the Syndical Chamber, are distributed among the creditor Agents de Change, the latter sending a messenger furnished with power of attorney to take delivery.

To preserve the record of the deliveries, the Secretary General has two statements drawn up, one comprising the securities to be delivered, quantities and names of sellers; the other, securities to be taken up, quantities and names of buyers. Thus, delivery of a few thousand certificates suf-



fices to settle definitively transactions in which millions of shares change hands.

The settlement of the cash accounts due between the various Agents de Change is obviously simpler than the settlement of securities, since here no complications intervene such as those caused by the diversity of the types of securities. When the clerks of the different offices, at the end of each session of the Bourse, post the record of the day's business from the journals to the register of the Agents de Change, they enter the price and amount of each security upon the same page in a special column, to the account of each colleague.

Sums due from securities sold, coupons, options, etc., are totaled on one side and compared with debit totals from securities purchased, options abandoned, etc., and the resulting debt or credit balance established against every other Agent de Change. The morning of debtors' day (third or fourth day of liquidation) also called day of checking of cash, each office makes up its cash sheet, entering opposite the name of each of the sixty-nine Agents de Change, at the left the elementary credit balances, at the right the elementary debit balances previously obtained. Adding the sums entered on each side and comparing them, a total credit or debit balance, as the case may be, is obtained.

This total balance, however, is not yet definitive. It can be modified by means of "*délégations*" (drafts drawn on one Agent de Change to the order of another Agent de Change) by a client who wishes to escape a shifting of his funds. The balance being corrected in view of the *délégations*, a new balance appears, called the balance after *délégation*, which sum the Agent de Change definitely must pay to or receive from the Syndical Chamber.

All the offices file with the bureaux of the Syndical Chamber the evening of debtors' day, their verified cash-balance

sheets, which are checked by the clerks collectively. Then the liquidating clerks carry to a cash-liquidating sheet, similar to those handed in by the Agents de Change, the total balances, creditor to the right, debtor to the left. Adding the sums on the right and on the left, the totals must be equal since the dues of the creditors are a necessary counterpart of the obligations of the debtors. The Secretary General then has drawn up two cash sheets or tickets, the first containing the names of the debtors and the amounts they are to pay, the second the names of the creditors and amounts they are to receive. These sheets are at once forwarded to the Bank of France.

The final settlement takes place the last day of the liquidation, called the day of creditors. The debtor brokers must draw, to the order of the Caisse Commune syndicate, drafts on the Bank of France to the amount of their debt. Before midday, they must furnish to the Secretary General a memorandum issued by the Bank certifying that they are prepared to meet this obligation. In the afternoon, the Caisse Commune gives the order to the Bank of France to credit the accounts of the Agents de Change creditors in the liquidation, the amount of the drafts drawn to their order by the Caisse Commune necessarily equalling the payments made to it in the morning by the debtor brokers. The sums due the clients from the Agents de Change must be paid them, at the latest, the day after the close of the liquidation.

*Close of Liquidation.* The total cash debit or credit of an office does not indicate the position of all the clients of the Agents de Change toward all of the other sixty-nine Agents de Change clients. The amount and value of the securities taken up or delivered must be compared; if taken up, added to a cash credit balance or subtracted from a cash debit balance, if delivered, subtracted from a credit balance

or added to a debit balance. Owing to the "*solidarité*" (see next chapter) of the Agents de Change, this information is not without interest to the colleagues of the Agent de Change. Hence, each office furnishes the Syndical Chamber with a table, called "*tableau recapitulatif*", indicating the cash balance (without showing the *delegations* which alter the exactness of it) including the quantity of securities taken up or delivered, their value having been calculated by multiplying the quantity by the making-up price (*cours de compensation*). The approximate position of each office is thus stated in a sort of bi-monthly balance sheet, which is deposited in the "*Cabinet*" of the Company of the Agents de Change, and may be consulted by all the members of the Parquet.

It should be noted that, although for clarity in description the operations of the liquidation relating to securities and cash were separated, they are carried out simultaneously in practice. The payment of cash takes place at the same time as the delivery of securities and the securities are taken up the last day, at the same time credit balances are available at the Bank of France.

The *ultimo* (end-of-the-month) settlement on the Parquet is accompanied step by step by the *ultimo* settlement on the Coulisse. In fact, so necessary is this correspondence between the two that the Minister of Finance, in his report of September 1915, on the resumption of liquidations interrupted by the war, pointed to the practical necessity of such simultaneous operation. The procedure on the Coulisse markets is in principle and method as nearly as possible identical with that on the Parquet, except that the Banquiers are not obliged to put all their transactions through their central liquidation, and are more careful about their "counter-parties" than the brokers. The right of discount (*droit d'éscompte*) also does not exist on the Coulisse.

The Bureau of Compensation of the *Syndicat des Banquiers* for future settlement occupies a building jointly with the *Syndicat* trading for immediate settlement. Here the members of the latter organization send their clerks in the morning with the balances of securities to be delivered to each other member. These clerks also act as receivers and take away the securities to be delivered to them.

Each firm has a separate booth with a desk and counter allotted to it, there being about one hundred and fifty such booths in the institution. The securities are delivered from one firm to the other in packages, similar to the delivery of checks as between banks by the New York Bank Clearing House, except that the securities are verified and the balances proved at the time of the delivery. After this examination, payment is made to the deliverer's employe by a *Bon de Comptabilité*, or order on the members of the association, which also acts as a receipt. Red *Bons* are given for debits and white ones for credits. These are used to establish the net debits or credits of a firm. Debits have to be made good during the morning. For net credits a white *Bon* is given, which, after balances are struck and the cash proven, can be exchanged at four o'clock in the afternoon for a check of the Association on the Bank of France for the amount involved.

It is not obligatory on the part of the members of the Association to deliver all their securities through this department, as in many cases they have not received between eight and nine o'clock in the morning, when the settlement takes place, all that they may have to deliver. Also, in cases where the deliverer is doubtful about the standing of a firm that is to receive his securities, he delivers only a small proportion, about ten per cent to twenty per cent, making the excuse that the balance has not arrived from his client, thus failing temporarily in delivery. As all debits have to be made good by one o'clock in connection with all securities delivered through the settlement room, the deliverer, believing that the buyer has made good by his ability to take that which was delivered to him in the morning, then delivers directly to the receiver at his office the securities in question.



In connection with the securities delivered by the organization for immediate settlement, credits are not paid out until four-thirty o'clock in the afternoon. The routine and principles concerning the receipt and delivery of securities traded in for the account on the fortnightly "Pay Day" is, to all intents and purposes, practically the same as in the case of those traded in for immediate settlement, except that there is an obligation to deliver which is not present in the cash settlement.<sup>1</sup>

In the latter days of the official liquidation, the Agents de Change have large remittances to make to the Banquiers on account of split commissions, etc., while the latter may, as givers of orders, be heavily in debt to the former. These at times not inconsiderable settlements, are made individually, and constitute the one cumbersome feature that impairs the title of the Paris Bourse to a fully perfected technique.

One farsighted or lucky provision is the beginning of the ultimo liquidation on the last day of the month. The monetary demands of the stock market are thereby postponed to the second, third and fourth of the new month, thus in part, escaping the stringency in the money market due to the usual and unusual end-of-the-month payments, a circumstance which causes the Berlin Bourse members, whose final and entire payments are made on the first day of the new month, constant anxiety. But considerations such as this belong rather in the next chapter, on credit facilities.

<sup>1</sup> Quoted from S. F. Streit.



## CHAPTER IV

### CREDIT FACILITIES OF THE PARIS BOURSE

THE Paris Bourse, quite unlike Wall Street, is notable for the huge amount of Government securities, and of foreign securities, listed on its markets. It is the second international market in the world, and has been said to control the credit of forty countries.<sup>1</sup> Since 1823 Paris has invested heavily in foreign securities and up to the outbreak of the war, more than half the stocks and bonds on the Bourse were of foreign origin, notwithstanding the provision that such securities (since 1907) could be listed on the Parquet only with the consent of the Ministers of Finance and Foreign Affairs.<sup>2</sup> These foreign securities are chiefly those of foreign Governments, though there are some of foreign railways, public utilities, mines, and industrials.

In 1914 Paris was the leading market for Russian bonds, and for a large part of the public debt of Spain, Portugal, Turkey, Greece, Egypt, Algiers, Tunis, Roumania, Serbia, and other Balkan states, as well as that of many South American countries. The total foreign investments listed on the Parquet alone were estimated at \$14,000,000,000,<sup>3</sup> the value of the French securities, chiefly Government "*rentes*" and railroads, being somewhat less. At present of course, the huge war borrowing, estimated at some \$12,000,000,000

<sup>1</sup> Vidal, *op. cit.*, p. 167.

<sup>2</sup> A. Neymarck, in *Journal de Société Statistique de Paris*, Jan. 1916, p. 47.

<sup>3</sup> *Ibid.*, also Hirst, *The Stock Exchange*, p. 90.

to date (January, 1919) <sup>1</sup> swells immensely the sum of domestic securities, while many foreign stocks and bonds have been resold, notably to the United States. Other French stocks and bonds are those of municipalities, the *Crédit Foncier* (corresponding to our own Farm Loan banks), other banks and credit companies, public utilities and industrials.

The annual increment of listings depends on the annual French savings, and the amount of these invested in securities. The average annual savings so invested are estimated by Neymark to be about one billion,<sup>2</sup> which, deducting \$600,000,000 for replacements, leaves some three or four hundred millions as new capital. This habit of saving (*l'épargne*) of which the French never tire, and which has been erected to the dignity of a sort of a guardian spirit, depends in turn upon the annual productive power of the French people. This latter is, of course, one of the most difficult of all economic facts to ascertain. If we accept the statement of R. G. Levy,<sup>3</sup> that the value of the land in France is \$12,000,000,000 and the value of buildings, etc., is \$15,000,000,000, counting securities at his figure of \$40,000,000,000, we find the total wealth of France before the war to have been approximately \$67,000,000,000, a figure which probably considerably understates rather than overstates the actual wealth. If as much as ten per cent gross is earned upon this total, the annual income of France is around \$6,000,000,000.<sup>4</sup> While according to an estimate by L. C. Money the actual national income of the United Kingdom at the outbreak of the war was about \$11,000,000,000. A similar

<sup>1</sup> Next chapter.

<sup>2</sup> Cf. Rist, "Nos Ressources Financières," *Revue de Paris*, Dec. 1, 1915, p. 656.

<sup>3</sup> *Quarterly Journal of Economics*, Nov., 1915.

<sup>4</sup> Cf. Rist, *op. cit.*

estimate for Germany was given in a statement issued a little later by the German Government.<sup>1</sup> In 1912 securities admitted to the list in France totaled about \$600,000,000, in Germany \$650,000,000, United Kingdom \$300,000,000, Austria \$150,000,000, and the United States \$700,000,000.<sup>2</sup>

The great source of French wealth is her wonderfully fertile soil from which she could, if necessary, entirely sustain herself, importing only a small amount of grain and meat in the way of staple foodstuffs. From her great silk, iron, steel and other industries, from her fisheries and her merchant marine, she also draws large returns. The fundamental basis, however, of French credits and French institutions is the industrious and frugal character of the French people, their sterling integrity and sound common sense, even though it is said that French thrift is not so accumulative as English speculation and German enterprise.<sup>3</sup>

As the Bank of France loans out its millions with a minimum of restrictions, confidence in its success being based on the discretion of its directors, so the Paris Bourse owes its great financial stability and high credit to the semi-official and responsible rôle that the Agents de Change have long played in the financial history of France, and the rather rigidly organized and well understood function that they have gradually assumed.

The Agents de Change are more than a mere association of stock brokers who buy and sell on commission.<sup>4</sup> Their organization is a close-knit and responsible one that guarantees to buyers the *bona fide* character of securities on its offi-

<sup>1</sup> *New York American*, Dec. 2, 1915.

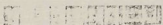
<sup>2</sup> Neymarck, "Rapports à l'institut International de Statistique," *vide* Proceedings.

<sup>3</sup> *Vide* Levy.

<sup>4</sup> Cf. Boissière, *op. cit.*, p. 216.

cial list, and guarantees to its givers of orders, as they are called, that all sums or securities due them from any broker shall be rendered, even in case of the delinquency of the broker. The third undertaking of this unique organization is to guarantee to those who lend money on securities (*reporteurs*) through the medium of its members, full repayment of all such sums, regardless of the security on which the loan is made, the individual speculator or investor to whom it is made, or the *Agent de Change* who handles it. In other words this guarantee is not individual but collective, and this collective responsibility of the Parquet to its buying and selling and its money-lending clients has become famous as the "solidarité" of the Agents de Change. (It is not practised by the Syndicates of Bankers, the *Coulisse*).

More than any other one feature, except the prohibition to Agents de Change of dealing for their own account, has this credit solidarity shaped the nature of the fully developed brokerage monopoly. It accounts in large degree for the care taken in the listing of securities, for the close scrutiny of prospective members and the financial responsibility required of them. It also explains the constant watch maintained by the Syndical Chamber over the operations of each member, the great powers of that body, and the supposedly difficult conditions imposed on traders who do other than a strictly cash business. The collective responsibility of the Parquet to lenders of money on securities, a thing unknown on any other exchange, has naturally had a profound effect in attracting capital into the fortnightly and monthly loans (*reports*),<sup>1</sup> by which speculation in stocks and bonds is financed. Making such loans safe, as illustrated farther on, has undoubtedly brought down the rate of interest charged. The *report* rate frequently runs for

 <sup>1</sup> Buchère, *op. cit.*, p. 265.



months under three per cent or four per cent, which rate, plus a commission charge of one-half of one per cent on most securities at the monthly carryovers, makes the net cost of carrying securities some four per cent or five per cent per annum.

The whole result of the perfecting of this complex mechanism for marketing securities has been, aside from the great power acquired by the Compagnie des Agents de Change, the promotion of the corporate form of business organization in France.<sup>1</sup> In the United States the development of the New York Stock Exchange, combined with the lack of a discount market for commercial paper,<sup>2</sup> has even to a greater degree brought about the same result, whereas in London, with its great commercial paper market and antiquated stock exchange, the limited partnerships still thrive like the green bay tree.

The listing of securities is safeguarded by requiring that they must be legally issued, with the exception of French rentes which must be admitted, and of foreign government securities which are admitted only with the consent of the French Government. One-fourth of the shares must be outstanding and full paid (*libéré*), they must be quoted in their country of origin, and the price of emission together with a list of subscribers must be officially furnished to the Compagnie. The purpose of the issue must, in addition, be a proper economic one; enough shares must be outstanding to make a genuine price; and lastly a transfer agent, and, in certain cases, an office must be maintained at Paris.<sup>3</sup>

The responsibility of enforcing these requirements rests on the Syndical Chamber. In 1869, for instance, the Syndi-

<sup>1</sup> Cf. Vidal, *op. cit.*, p. 166.

<sup>2</sup> Warburg, "*The Discount System of Europe.*"

<sup>3</sup> Boissière, *op. cit.*, pp. 150-152.

cal Chamber admitted to quotation, the mortgage bonds of the Memphis, El Paso and Pacific Railroad. Because of the favorable publicity, the bonds were quickly placed, and the first three coupons had been paid before the Parquet, hearing rumors of fraud, made investigations, and later denounced the Company.

This brought on the collapse of the Company, whereupon the Syndical Chamber was sued by the defrauded security holders for the amount of their loss. Fraud in procuring admission was shown by the attorneys of the Syndical Chamber, but the latter was held at fault by the highest court for not knowing that only a million of the forty million capital stock had been subscribed, that only a hundred and thirty thousand had been actually paid in, and that the bonds were thus rendered only conditional securities and were unsafe. This omission, the Court held, constituted an act of negligence, and the Syndical Chamber was required to pay one-fifteenth of the damages. This judgment is said to be unique, though the Syndical Chamber has passed on millions of securities.<sup>1</sup>

Speculating customers of the Agent de Change must be known by the Agent to be financially and morally responsible, or must otherwise provide sufficient margin to secure the broker in his operation. In Paris and London speculations are financed by brokers on the mere word of the client buyer or seller to an extent that would cause heart failure in New York. When once an introduction is secured and references verified, business is done largely on faith and trust, though the custom of requiring "cover"—usually about ten per cent, varying with the security, the market and the customer—is an old one in Paris, and sanctioned by law. The broker however is held by his fellow members to a strict

<sup>1</sup> Boissière, *op. cit.*, p. 170.

compliance with the dictates of prudence. The Syndical Chamber can call for his books for examination at any time, and has the power peremptorily to cut short doubtful speculations. In time of panic, the Syndical Chamber can forbid brokers to sell short for clients unless the latter provide shares for immediate delivery. If a broker becomes doubtful of a client's solvency, he can refuse to "report" him, *i. e.*, supply him with funds for carrying over his securities from one liquidation to the next, in which case the client either settles his account, or is "sold out under the rules."

In case of a delay in delivery on the part of a broker, the receiving broker can "post" the other, and at the end of three full sessions the former is "sold out" by an official of the Syndical Chamber, *i. e.*, a new purchase is made for the benefit of the complainant broker, the broker at fault being liable for the difference. The Syndical Chamber has also the power to intervene to compel a broker to furnish names for transfer operations, or an "acceptance," in the process of "indirect discount" (*droit d'escompte*), and whenever a client has cause to complain of failure of a broker to remit funds or shares.

When an Agent de Change fails, he leaves the Parquet forever, a ruined man. The Syndical Chamber steps into his place, calls for a report from each broker who has dealt with him, then proceeds to sell him out, undoing by counter operations all his open transactions, thus releasing each broker from settling with him, and charging the losses or crediting the gains to his assets, leaving his now uncovered colleagues to find a solvent counter party to take the bankrupt's place. The customers are given their choice of liquidating or maintaining their position with the bankrupt broker according to their interests, until a given time, when those owing pay up, and those having credit balances re-

ceive the full amount of their principal, regardless of the state of assets of the bankrupt office. A broker is required to participate personally to the extent of at least one-fourth, in the purchase of his seat <sup>1</sup> and in the deposit of a guarantee fund (*cautionnement*) of \$50,000 with the Government, the two-fourths totaling some \$82,000 (estimating price of seat at some \$240,000). A working capital of some \$80,000 additional is necessary, (an Agent de Change at times advancing in a single session as much as \$12,000 for registration taxes). It is apparent, therefore, that the broker must be of considerable financial responsibility.

The amount of capital required has become so large that it has long been customary for an Agent to associate with himself silent partners (*bailleurs de fonds*) who supply the sum that he lacks and share proportionately in the profits and losses. This capital is, of course, also available to creditors. If that capital is exhausted, resort can be had to his share of the reserve of the Compagnie bank (*Caisse Commune*).

If even this should not prove sufficient, then the combined resources of the other members of the Parquet can be requisitioned, provided the obligations of the broker are not illegal, as in the Bex cases where the Court held that the Compagnie was not liable for commitments of a broker who had secretly guaranteed a fixed rate of interest on reports, regardless of the market rate. This collective responsibility is far-reaching and amounts even in normal times to a huge sum. When the great Catholic bank, the Union Générale,<sup>2</sup> crashed to ruin in 1882, dragging down a score of allied financial and industrial institutions including the entire Parquet of Lyons, the Paris Bourse found itself heavily involved. Large amounts of the Union Générale securities had been sold through certain Agents de

<sup>1</sup> Marintsch, *La Bourse*, *op. cit.*, p. 223.

<sup>2</sup> E. Kaufman, *La Bank en France*, p. 33; also Vidal, p. 189.



Change to the members of the *Coulisse*, and the latter were on the brink of ruin. They sued their confrères on the *Parquet* for the sum of \$16,000,000 and on the ground of irregularities in the transactions were awarded judgment by the courts. Though the *Compagnie* as a whole had then but a vague moral obligation, it stood steadfastly behind its members, borrowing the \$16,000,000 and honoring their signatures, till the last sou was paid.<sup>1</sup>

This joint liability has since been made obligatory by the law of 1898 already mentioned. It means that in case of a sudden and extensive rise in prices and the subsequent default of the share sellers or, what is more often the case, a sharp and unexpected drop followed by the failure of numerous speculators for a rise, the entire *Parquet* would be held liable for the unpaid credit balances, due in the first case to the "bulls", and in the second, to the "bears" and to the *reporteurs* or money lenders. As the amounts loaned out on the Bourse range from what was probably a minimum of \$100,000,000, August, 1914<sup>2</sup> to over \$300,000,000 at the time of the Agadir incident (1911), it is evident that the engagement undertaken by the *Parquet* is by no means a light one.

The total resources<sup>3</sup> of the *Parquet* have been estimated as follows, the amount of the surplus of the Company bank (*Caisse Commune*) being, for reasons of prudence, kept a secret. The value of the seats fluctuates. In 1857 it was \$480,000, in 1898, \$320,000.

The total value of the seats at \$300,000 (1914) x 70.....	\$21,000,000
The total value of the guaranty fund, 50,000 x 70 .....	3,500,000
The surplus of the <i>Caisse Commune</i> say (?) .....	3,000,000
<hr/>	
A total of .....	\$27,500,000

<sup>1</sup> Boissière, *op. cit.*, p. 317; also Cleveland Moffett, *op. cit.*

<sup>2</sup> See following chapter on War Finance.

<sup>3</sup> Boissière, *op. cit.*, pp. 316-320.

If this should still be insufficient, the reserve of the *Caisse Commune* could be utilized, and recourse could be had by common-law action to the assets and personal fortunes of the bankrupts. Altogether the total value back of the brokers' contracts has been estimated at not far from \$100,000,000, and in 1896 it was stated by Hayaux du Tilly in the *Marché Financier* (p. 105) that the public had not lost a sou through a broker's act in seventy-five years.

As in all great financial centers, there exists in Paris a "money trust." That is to say the private banks or a number of the big credit institutions (as they have called themselves since the failure of John Law's scheme made the word "bank" so unpopular) by acting in common are powerful enough to control to a greater or less degree the credit obtainable by various other institutions and companies. By concentrating their *report* loans, for instance, on some one security, or group of securities, and then suddenly withdrawing *en masse* from the market, at the same time selling these particular securities short, it was possible for this "money trust" seriously to upset the normal market, cause widespread distrust, and demoralize the whole speculating and investing public.

Apart from the danger of raids by financial adventurers, there are sudden withdrawals of funds due to loss of confidence, or to urgent demands for capital from other quarters. Subscriptions to the national loan in 1891 withdrew so much capital from the Bourse that reports were forced up to twenty per cent and thirty per cent on certain securities. For the first payment on the loan of \$140,000,000 some \$468,000,000 were desposited, a large part of this sum evidently having been employed in *reports* at the time.<sup>1</sup>

In the middle of January in the panic of 1907, *report*

<sup>1</sup> O. Marintsch, *La Bourse*.

rates rose so rapidly that speculators brought securities to the Bank of France for short loans until it was forced to raise its loan rate from three and one-half per cent to four per cent although it loans only eighty per cent or less of the market price.<sup>1</sup>

To offset the effect of such influences the Parquet originally formed a common fund (*Caisse Commune*),<sup>2</sup> called popularly the *report* bank, to make loans to brokers and their clients for from fifteen to thirty days, to the full market value of their securities. This fund at first consisted of one-fourth of the profits of each broker, but was augmented later in various ways. At present, the fund is recruited mainly from the sale to brokers by the Syndical Chamber of stamps that must necessarily be affixed to the purchase and sale sheets also issued by the same authority. Dividends are now paid semi-annually by the bank.

The chief functions of the bank are to support the collective current expenses of the *Compagnie*, to make loans to brokers in time of need, and to substitute itself for a bankrupt broker for safeguarding creditors' interests. As the *Compagnie* through its *Syndic* buys and sells *rentes* for the account of the French Government, the *Caisse Commune* maintains a fund to meet the needs of this service. A guarantee fund is held by the *Caisse* in the name and to the account of each of the seventy *Agents*, the amount being fixed by the Syndical Chamber. In 1908 the sum which must be provided by each Agent was about \$20,000, but this may be increased at any time if the *Compagnie* so decides. The amount of the stamp tax collected by the Syndical Chamber varies, but runs about five per cent of the commissions received. The collective reserve, as mentioned

<sup>1</sup> Maurice Patron, *Bank of France in its Relation to National and International Credit*.

<sup>2</sup> Cf. Boissière, *op. cit.*, p. 321.

above, is concealed in order to avoid informing speculators in credit of an opportune moment for a raid.<sup>2</sup>

No advance may be made by the Caisse Commune to an insolvent broker. To a solvent one funds may be advanced under two conditions, first that the advance be for not more than six months, second, that the Agent de Change give the Syndical Chamber the privileges of a silent partner, or give security to an amount equal to the loan. The Syndical Chamber may renew loans up to \$20,000 for six months more. Beyond this, a General Assembly of the Compagnie must decide.

On the *Coulisse* or among *Syndicats des Banquiers*, there is no joint liability for individual obligations. To be admitted to membership in the *Syndicat* for cash transactions, however, brokers must be able to show means of at least \$20,000, and for admission to the *Syndicat* for transactions for future settlement, the minimum is set at \$200,000. Listing requirements are not onerous. Each firm may deal for its own account, and is responsible only for its own debts. Loans are therefore made by *reporteurs* on the *Coulisse* with much greater care, the reputation of the firm and character of the security offered being carefully scrutinized. When loans are made on *Coulisse* securities, it is customary for the lenders to require that they shall have custody of the certificates, while on the *Parquet* these are usually left in the hands of the Agents de Change, a receipt issued by the Syndical Chamber being accepted instead. On the *Coulisse* also, the rate varies greatly from security to security, and from firm to firm. In case of a *Coulisse* failure, the creditors share *pro rata* as in the case of an ordinary commercial failure.

As stated in the first part of this chapter (p. 60) some three or four hundreds of millions of dollars of new capital

<sup>1</sup> Cf. Boissière, *op. cit.*, p. 333.



are annually available from French sources for speculation and investment in bourse securities. This sum is augmented to an unknown degree from foreign sources, or diminished, on the other hand, by transfer of French funds to foreign markets. It is clear that this golden influx involves either an increase in the prices of the existing securities, the creation of new securities for its absorption, or a series of fluctuations involving losses whereby wealth is transferred to other hands and withdrawn from the market for other uses.

As in all speculative markets, attempt is made to anticipate permanent investment. New securities are constantly being listed and held on borrowed money and old ones accumulated at what is hoped to prove to be a low level of prices. These securities are held by the speculators and others on the bourse by means of the fortnightly and monthly loans (*reports*)<sup>1</sup> provided by wealthy individuals, trustees, railroad, insurance, utility, and industrial companies, the private bankers, called generally *la haute banque*, and the great credit institutions.<sup>2</sup> The Bank of France does not make *report* loans.

These *report* loans, of course, are guaranteed by the *Compagnie*, and can be withdrawn or shifted at the end of each fortnight or month, according to the account for which they were made. The *report* rate of interest which they bear is the most sensitive credit barometer in France, as is possibly the private commercial paper rate in England. It is prevented from being an exact reflection of the bourse situation through some operators' making outside loans for as long as a year in order to conceal their position or avoid commissions and taxes, or the periodical uncertainties of the

<sup>1</sup> J. Combat, *Manuel des Opérations de Bourse*, p. 232.

<sup>2</sup> J. Combat, *Banques et Opérations de Banque*, pp. 69, 338.

liquidations.<sup>1</sup> Formerly, the rate varied greatly on different securities, as it does to-day in New York, London, and on the *Coulisse*, a spread of 3.7 per cent between *Rio Tintos* and *rentes* being not unusual.<sup>2</sup> This fact caused an endless shifting of loans, *report* arbitraging, for the profit in the difference between the various rates. Since the collective guarantee became effective, however, the rate has tended to equalization over all securities, and opportunities for interest arbitraging are small, though the power of discrimination for cause by the Agents or the Syndical Chamber is in nowise lessened!<sup>3</sup> It is noteworthy in this connection that the same rate of interest received by the *reporteur* is charged the borrower, the Agent acting, without other compensation than his commission, as responsible intermediary. In New York and London, on the contrary, the broker borrows (largely from bankers) and lends to his customers at an advanced rate, many members making their office expenses from the resulting profits. The rate runs ordinarily a little less than the Bank of France rate and a little more than the private commercial discount rate on prime bills, varying from one per cent to four per cent on the *Parquet*, and from three per cent to five per cent on the *Coulisse*.<sup>4</sup>

Turning now from the Bourse to the money market, there is a financial institution outside the Bourse, yet most closely associated with it, called *La Haute Banque*,<sup>5</sup> that supplies a large part of the securities as well as the funds with which Bourse operations are carried on. Following is a list of the most important French private banks comprising *La*

<sup>1</sup> J. Combat, *Manuel des Opérations de Bourse*, p. 236.

<sup>2</sup> René Chevrot, *Pour devenir financier*, p. 379.

<sup>3</sup> Boissière, *op. cit.*, p. 208.

<sup>4</sup> Combat, *op. cit.*, p. 236.

<sup>5</sup> E. Kaufman, *La Banque en France*, p. 166.

Haute Banque, one of the distinguishing characteristics of which is that few or no reports of their situation or operations are made public: Rothschild Frères, Heine et Cie., Hottinguer et Cie., J. Stern et Cie., Vernes et Cie., and La Banque de Paris et Pays Bas, a powerful private company of some \$20,000,000 capital that accepts no deposits from the public. The above are the leading private firms that, owing to their limited ownership, do a more venturesome business than the great deposit-accepting, report-making credit institutions<sup>1</sup> that outrank them in wealth and power.

The chief of these latter are Le Crédit Lyonnaise, capital \$50,000,000, La Société Générale, capital \$100,000,000, one-half paid in, Le Comptoir National d'Éscompte, capital \$40,000,000, and La Société Générale de Crédit Industriel et Commercial, capital \$20,000,000.<sup>2</sup>

In 1908 the total loans of these four companies on securities, including *reports* (at least one-third) were some \$180,000,000 and their total discounts were some \$540,000,000. Being always able to turn a large part of these discounts into cash at the Bank of France, they could loan freely on the Bourse large sums for periods of two weeks or a month. For this same reason, they carry on hand only enough cash to meet their daily needs, and at the Bank of France only enough to insure rediscounting in sufficient volume. The total cash of the Crédit Lyonnais for instance, amounts to eight or ten per cent of deposits, and this is generally true of the others. There are no legal reserve requirements. Loans are made upon all kinds of securities regarded as good, at varying rates, requiring a margin of from twenty per cent on, say, French railroad

<sup>1</sup> A. Neymarck, *Journal de Société de Statistique de Paris*, May-June, 1909.

<sup>2</sup> Lucien Lagrave, *Les Établissements de Crédit*, pp. 30, 55.

bonds, to thirty or forty per cent on miscellaneous securities, depending on the collateral, the individual, and the market situation. Usually one per cent to two per cent more than the Bank rate is charged on securities and likewise on discounts. One-half to one per cent is paid on demand deposit checking accounts. On time deposits one or two per cent for one year, two or two and one-half per cent for two years, and three per cent for three years is paid. These great banks with hundreds of branches in France and abroad thus collect funds from all sources and concentrate them for large mercantile and Bourse operations.<sup>1</sup>

In what might be called the second group of La Haute Banque are H. de Bethman et Cie., Demachy et Cie., Lazard Frères et Cie., de Neuflize et Cie., Perier et Cie., Mallet Frères, and many other private banks, usually firms, but sometimes individuals.<sup>2</sup> All of these various financial interests are more or less directly interested in financing the flotation and absorption of listed and unlisted securities. The amount of free capital they have available for short loans and the amount of securities carried on borrowed funds primarily determine the *report* rate of interest. The rate is of course influenced by the commercial demand for short loans and the total supply of available funds. Such funds may come from foreign as well as domestic sources depending, among other considerations, on the rate of interest prevailing in the foreign country, or in other words, the demand for and supply there of short-time funds. As a rule France has been in the past more often a lender than a borrower, and French financial institutions have invariably turned finally to the inexhaustible resources of the Bank of France.

<sup>1</sup> Interviews with Crédit Lyonnaise and Comptoir d'escompte officials; *vide* National Monetary Commission. Also André Lièze, *Evolution of Banks and Credit in France*, p. 193 et seq.

<sup>2</sup> J. Combat, *Banques et Opérations de Banque*, p. 338.



It is through the commercial discount rate, its discount policy and its enormous potentialities that the Bank of France exercises its influence over the Bourse and its operation.<sup>1</sup> Its power to issue paper money in the form of bank notes depends practically on the demand for money (expressed in terms of what may be called the bankable paper offered it), as will be illustrated in the following chapter on the financial measures necessitated by the war.

The French Government has put only three important restrictions on the issue of banknotes by the Bank of France. The total amount of the issue is fixed at a definite figure, a figure however, which is progressively raised when it seems probable that the issue will be exceeded by the demand; second, the issue must be covered in one of three ways: first, by metal (gold or silver); secondly, by French Government bonds, provincial, municipal, or other public securities, or certain securities guaranteed by public bodies (a list of securities on which loans may be legally made is kept up to date by the bank); and thirdly, by commercial paper of various kinds, of not longer than three months maturity. This paper must have three signatures. Two of these must be by persons domiciled in France. In lieu of a third signature a deposit of securities belonging to the class on which loans may be made, or of warehouse receipts, may be accepted. About 70 per cent of discounted paper bore in 1909 the indorsement of a bank, but the percentage of direct loans to individuals is steadily increasing, especially since 1898 when the minimum amount of an acceptable bill was lowered to \$100. To be admitted to the discount privilege, however, a minimum account of \$100 must first be opened with the bank. The character of the collateral eligible for loans is fixed by laws and de-

<sup>1</sup> A. Huart, *L'Organisation du Credit en France*, pp. 62-130.

crees, but the amount loaned, depending on the collateral, is determined by the General Council (board of directors) of the bank, a list of such percentages being kept by the bank officials. The percentage (of the market value) runs from 60 per cent to 80 per cent. For loans and all operations on securities, the clientele is composed mainly of individuals. In fact, the current account for loans now used in general business affairs, originated from the need of stockbrokers for temporary transfer loans.<sup>1</sup> The bank pays no interest on deposits.

The supplementary third signature to obtain a security loan may be given once for all by guarantee by separate deed (*aval par acte séparé*). A "mixed account" system also exists, by which securities deposited serve, according to the position of the account, to guarantee advances made or discounts granted to the same customer. The Bank of France has for loans on collateral and discounts of commercial paper two rates, the loan rate running usually one or one-half per cent higher than the discount rate. The Bank does not loan below its published rates. The third restriction on the note issue is the obligation of the Bank to pay out gold, or silver (an option of which it seldom avails itself) on demand upon presentation of its notes. There is no legal requirement whatever as to the amount of gold reserve to be kept behind the notes. That matter is left solely to the judgment of the Bank, the governor and vice governor of which, however, are appointed by the French Government. As the Bank is required to pay out gold or silver for its notes, and as it must also pay out its notes in discounting certain acceptable bills, the extent of the reserve is more or less automatically determined. It has risen and

<sup>1</sup> Patron, *Bank of France in its Relation to National and International Credit*.

fallen with every event in the history of France, and a full explanation of its fluctuations would supply almost a complete story of French national life. All other banks in France, in fact all French financial institutions, and especially the Bourse, function with the knowledge that they can rely on securing funds at any moment in return for definite forms of security from the Bank of France, whose power legally to issue money is in turn limited only to the demand, however great, expressed in terms of these forms of security. In 1907 the Bank had \$697,000,000 of coin and bullion, discounts of \$235,000,000 and advances on securities of \$112,000,000.<sup>1</sup>

By the law of February, 1906, the limit of note issue was fixed at some \$1,160,000,000 and at the close of 1907 the outstanding note issue was some \$950,116,290.

So much for the outside system of credit to which the Bourse has access and which, in ordinary times, keeps it supplied with sufficient funds at a low rate, accepting without question its receipts for securities stored in the Bank of France's vaults and its guarantee of those securities based on its solidarity. The events of 1914-1915 were to be an acid test of financial institutions all over the world, and they left the Bourse financially high and dry. They revealed that not only the *Coulissiers* but the *Agents de Change* as well had not sufficiently foreseen the war to require adequate cover from the buyers on whose behalf they had pledged their own credit to the *reporteurs*. They revealed furthermore that the financial strength of the *Compagnie des Agents de Change* was not equal, in the great emergency, to the obligations it had gradually assumed or had had thrust upon it, and that neither its own efforts to raise funds and

<sup>1</sup> Cf. "Interviews with M. Pallain, etc," National Monetary Comm., vol. i, p. 189 *et seq.*

restore confidence, nor the importance of its operations had availed to prevent the closing of its term markets for a period of fourteen months from the outbreak of hostilities, although the big deposit banks managed to resume operations by January 1, 1915.

It is clear that the value of the guarantee of the Agents rests in the last analysis upon their income, which in turn depends upon the rates of brokerage, the volume of sales, and the costs of operation; an income that can be estimated by the general public partly by the price of seats (seldom sold), very vaguely by the receipts from the Bourse tax (since 1893), and more vividly by the silence or lamentations of the Agents themselves.

The volume of sales, as noted *supra*, is not known. The commissions charged by the Agents have been regulated by law since 1638, and in 1801 the court (*tribunal*) of commerce of the Department of the Seine, by virtue of authority conferred on it, fixed the maximum rate at one-fourth per cent. This rate remained in force throughout the nineteenth century,<sup>1</sup> though the Syndical Chamber, in view of the tendency of Agents in competition to lower the rate to minor fractions, fixed in 1887 certain minimum charges, dealing below which would render the Agent liable to severe penalties. The rate of securities involved in litigation alone remained and remains still at one-fourth of one per cent. In the reorganization of 1898, the maximum was fixed by law for all other classes of securities as follows: one-tenth of one per cent for cash operations with a minimum of fifty centimes (about ten cents) per lot; one-tenth of one per cent for term operations (except for the three per cent rentes fixed at five-sixths of one per cent); and finally for *report* operations in the term market about one-

<sup>1</sup> Boissière, *op. cit.*, p. 196.



half of the ordinary term rate for all securities except the rente three per cent which took the same rate as in cash transactions, five-sixths of one per cent. In 1901 these maxima were raised for securities of small denominations in the term market, to five cents per share or bond of those selling for less than \$50, ten cents for those between \$50 and \$100 and reduced for foreign government securities selling below \$10 to one-twentieth of one per cent. Below is a table of the actual rates established by the Syndical Chamber of the Parquet within these limits. On shares not fully paid the commission is calculated only on the net amount, the part unpaid being deducted. The franco (see p. 80) was applied to all operations.

CASH	TRANSACTIONS
In all securities	$\frac{1}{10}$ of 1% of amount negotiated minimum 10c.
TERM	TRANSACTIONS
In rentes 3% and rentes $3\frac{1}{2}$ % respectively.	$\frac{5}{8}$ of 1% and $3\frac{1}{3}$ %.
In foreign Government securities.	5c. for smallest lot negotiable in term market and progressively in proportion.
In shares and bonds under \$50	5c. per share or bond.
In shares and bonds between \$50 and \$100	10c. per share or bond.
In shares and bonds over \$500	$\frac{1}{10}$ of 1% of amount of sale.
REPORT	OPERATIONS
In French rentes 3%	$\frac{5}{8}$ of 1%.
" " " $3\frac{1}{2}$ %	$1\frac{2}{3}$ %.
In all other securities undergoing both liquidations, liquidated at end of mo.	$\frac{1}{20}$ of 1% of the amount of sale.
only in special certificates of For. Govt. loans over \$12	$\frac{1}{12}$ of 1% of the amount of sale.
	75c. for the smallest lot negotiable and progressively in the same proportion.

In the early part of 1910 the great falling-off of direct orders and commissions for the Agents became a source of

much anxiety and complaint on their part. Fluctuations in the three per cent rentes gave rise to increased activity among the customers of the *Coulisse* dealers for their own account in term transactions on which no commissions were paid. This resulted in cutting off a certain revenue that formerly came to the *Parquet*. Many investment firms began to sell emissions of securities direct to clients without recourse to a Bourse Campaign, and later themselves provided a market by dealing in such securities (untaxed operations), especially those suitable for saving, trust, and similar funds.<sup>1</sup> The *Parquet* petitioned in vain for higher maximum rates. Finally after much agitation and proof of hardship an agreement was reached March 15, 1910, between the Agents, the societies of credit, and the *banquiers* of the *Coulisse*, suppressing entirely the indirect franco in the cash market, and allowing the direct franco only when the arbitraging client's name was given by the intervening bank. The term "indirect franco" is applied to operations in which the big credit institutions, having collected thousands of orders throughout France and elsewhere, fill them *en masse* in their own names at one-half rates (franco) and turn them over later to their scattered clientele. On the other hand a *remise* of 25 per cent on commissions was accorded.<sup>2</sup>

Even before the war, the advantages gained by the agreement were regarded by the Agents as scarcely offsetting what seemed to be an incurable dullness of the market. In the budget of 1914 the tax on Bourse transactions was raised. This increase provided an added discouragement. Now, with the losses involved in closing the term market for fourteen months and with the meagre amount of sales during the period since it was reopened, together with the demon-

<sup>1</sup> Cf. Deville, *La Crise de la Bourse de Paris*, pp. 71-86.

<sup>2</sup> G. François, *Revue d'Économie Politique*, 1911, pp. 81-89.

strated inability of the credit power of the Parquet quickly to restore the situation, it may be expected that the Agents will ask for a further increase in the rate of commissions. They would probably make this demand even had there been no increase in the cost of living to warrant it. On the other hand, the opponents of the Agents will urge, as in the past, that the institution of the brokerage monopoly is obsolete and ineffective in time of emergency, that its solidarity is the cause of long closing periods as at the time of the Union Générale crash in 1882 when the Parquet liquidations with some \$33,000,000 involved, were postponed seven months.<sup>1</sup> The Parquet will doubtless be attacked as undemocratic, as a privileged company securing increased power without effort as its list of securities grows. It will also be pointed out that the Government should take advantage of the war conditions to indemnify the Compagnie for its equity in the legal monopoly and establish for all securities a free market, composed of both dealers and brokers.<sup>2</sup>

<sup>1</sup> Leon-Say, "Les Interventions du Trésor à la Bourse depuis 100 Ans.," *Annales de l'École des Sciences Politiques*, 1888.

<sup>2</sup> Vidal, *op. cit.*, pp. 18 and 256.

## CHAPTER V

### THE BOURSE AND WAR FINANCE

THE effect of even a threat of war on financial institutions was illustrated in 1911 when on July second Germany announced that a warship had been sent to Agadir, Morocco for the protection of German interests. Whether this step was dictated by German military interests with the purpose of carrying forward another step in an aggressive policy, or whether it was deliberately undertaken as an experiment to test German preparations, as was believed in some quarters, or whether it was primarily to divert the attention of the German public from internal matters was but a short time open to question. Relative to the monetary crisis in Germany which attended it, the Kaiser is rumored to have said in effect, that it must not happen again, and to have given directions that German financiers should be consulted and given opportunity to take precautionary measures in case of similar troubles in the future. The instigation to this latter course may not have originated with the Kaiser, but certain it is that from 1911 on the efforts of the Reichsbank to strengthen the German banking system were redoubled, and that three years later Germany was fully equipped financially to meet the outbreak of war.<sup>1</sup>

The announcement of the sending of the Panther was made on Saturday, July 2d. The middle of the year is always a time of financial stress and uncertainty, especially in Germany. In the latter part of June the Reichsbank had

<sup>1</sup> "German Financial Preparation for War," *Revue de Paris*, March, 1915.



given notice that it would require an additional commission for accommodation furnished by it at the end of the quarter, and this indicated, as it proved, that there were heavy engagements on the Berlin Bourse, and that there would be an unprecedented demand for funds. In preparation, gold was drawn from London (some \$3,500,000), Egypt, and possibly from Vienna, while it is known that English, French, Belgian, Dutch, Swiss, and Austrian banks, attracted by the high interest rates; loaned large sums in Berlin.<sup>1</sup> The immediate result of the announcement was a much greater fall in prices, and more disturbance in both London and Paris (where because of internal causes the situation was already delicate), than in Berlin, which had the use for definite periods of foreign resources, an advantage that might be prolonged indefinitely. As the week wore on, prices gradually recovered, but speculation naturally died down as the banks accumulated reserves, and low interest rates with easy money ruled the markets generally. By the end of the month, however, it was apparent that French bankers, as their loans matured, were withdrawing money from Berlin, and from London as well, and also, as it later developed, from Belgium, Russia, and other countries. It is possible that the French Government had decided, as a counterweight to German display of military power, to make the most of French financial superiority, possibly with the object of preventing future crises by making this one as expensive as possible to German borrowers, though this motive was not avowed. Meanwhile the central banks of France, Germany, and England were taking measures to strengthen their reserves, and veiled warnings appeared in the financial press.<sup>2</sup> By the last of August, withdrawals of French funds directly and indirectly from Berlin and the

<sup>1</sup> *Statist*, July 1, p. 24; July 8, p. 59.

<sup>2</sup> *Economist*, July, December, 1911.

fear of war, had driven Berlin bankers and debtors to London and even New York and Chili for replacements, causing considerable liquidation on both exchanges, amounting to as much as \$25,000,000 in New York. This was accompanied by a decrease in prices especially of international securities, notably Canadian Pacific, by many points. It has been estimated that some \$250,000,000 of foreign money was constantly employed by Germany. Heavy losses were occasioned German speculators by the dragging out of negotiations, prices dropping on the Berlin Bourse from 4 per cent to 5 per cent on bank stocks, and from 12 per cent to 20 per cent on industrials. Serious runs on foreign banks occurred in various parts of Germany, and on Black Saturday in September a veritable panic took place on the Berlin Stock Exchange. By the middle of September, led by the Bank of Belgium, nearly every important central bank in Europe had raised its discount rate. Included in the number was the Bank of France, which had maintained its rate at 3 per cent for some three years and eight months. A deputation of German bankers, voicing the protests of all German finance, called at the Foreign Office for assurance as to the progress of negotiations, and to the relief of Europe, were told that they were proceeding favorably. The German press adopted a friendlier tone, and the Morocco affair soon became a matter of history until the events of 1914 recalled it vividly to the present of that date. As indicating the gravity of the crisis in France, it was reported <sup>1</sup> that the banks in Paris at the midmonthly liquidation generally refused to lend to the *Coulisse*, which would have been in a deplorable situation, had not the Rothschilds come to its assistance.

This Morocco incident, coupled with previous ones, seems to have left the impression both in France and Germany,

<sup>1</sup> *Statist*, September 23, 1911, p. 726.

that the next aggressive act of Germany would result in war, and to have convinced the German powers that a sudden onslaught was desirable from a financial as well as from a military point of view, as was exemplified three years later.

In October, 1912 the war cloud burst in the Balkans, and all Europe was plunged into a fever of excitement. The possibility, always in the minds of all, of a general conflagration, made for idle bank balances, low interest rates, little speculation, and a steadily falling level of security prices. This decline in security prices was accelerated as the ominous weeks of the first half of 1914 passed. During this period of tension, French bank balances were largely withheld from Germany, but not, as it developed, from Germany's allies.

It is impossible to understand the money market and bourse events of European countries generally without reference to the political purposes dominating the use of loanable funds.<sup>1</sup>

In 1907 the French Government had given notice that foreign loans might not be listed on the French Bourse without its consent. This followed the Delcasse incident of 1905 when Germany, taking advantage of the Russian revolution of that date, assumed a high-handed attitude toward Russia's ally. On December 16, 1913, a circular issued by M. Caillaux renewed and extended this provision even to treasury notes. According to the Finance Minister, this was due to the efforts of Huerta and several Balkan states, notably Turkey, (behind whom we now know was the hand of Germany) to arrange for advances without countenance of the French Government. This move evidently originated, however, in the protest of Russia after the Ottoman bond issue of \$20,000,000 in Paris early in 1914. Russia

<sup>1</sup> V. R. Aubry, *L'Admission à la Cote des valeurs étrangères*.

complained that the Russian and Serbian issues should have come first.<sup>1</sup>

The total nominal capital issues emitted on the French market were in 1912 some \$1,117,800,000 and in 1913, some \$966,200,000. Not quite 50 per cent of these went into purely French undertakings, the rest going into foreign issues. In the early part of 1914 a great campaign for a Turkish loan was carried through in Paris. Certain railroad concessions were secured for French interests in Turkish territory, while incidentally several millions went, via Turkey, to repay German loans and to strengthen the Ottoman navy. Later, loans of \$100,000,000 to Turkey and \$35,000,000 to Greece were authorized, and though not publicly issued, it is impossible to say how much had been privately advanced when the war broke out. The French foreign office has evidently not always been fortunate either in its forecasts of coming events, or in its control over the international operations of certain French banks.<sup>2</sup> If the armed-camp situation of Europe is to continue, it is evident that French advances to foreign interests ought to be directed by a wider vision.<sup>3</sup>

Throughout 1913 the bank rate remained at 4 per cent; reports averaged 1.95 per cent to 3.27 per cent; money was plentiful, yet there was little speculation.<sup>4</sup>

At the end of June settlement, 1914, on the Bourse the perpetual 3 per cent, France's premier security, stood at 83.05 francs. At the end of July on the brink of war, they sold for cash at 78 francs, a drop of 5 francs on one of

<sup>1</sup> *London Financial Times*, January 6, 1914.

<sup>2</sup> V. J. E. Favre, *Le Capital Français au service de l'étranger*.

<sup>3</sup> Raphael George Levy, "Les Banques Français pendant la guerre," *Journal des Économistes*, Aug. 1915, p. 236. LaChapelle, *Nos Finances pendant la guerre*, p. 164.

<sup>4</sup> Raffalovich, *Marché Financier*, 1913.



the prime securities of the world,<sup>1</sup> that sold over 90 francs at the outbreak of the Balkan war in 1912.

Especially to be noted was the case of the 3½ per cent rente that had just been emitted July 7 to the extent of some \$161,000,000. It had been widely advertised by a popular ministry and was over-subscribed 40 times, largely by speculators who anticipated a speedy resale at a moderate advance over the issue price of 91 francs. On the 8th, 9th, and 10th of July the price actually did rise to respectively 91.25, 91.50 and 92, and large amounts were dealt in on the Parquet and the Coulisse term markets. By the 25th of July the price had fallen to 85 francs, which would have spelled ruin to numerous holders if they had been obliged to liquidate on the 31st. If they failed, in case of liquidation, the Agents concerned would have had to bear the loss, and if it proved too heavy for them, the Syndical Chamber, by virtue of the legal solidarity of the *Compagnie* would have been obliged to pledge all the resources of the Parquet to the reimbursement of the *reporteurs* and the sellers.<sup>2</sup>

This depreciation was of course paralleled by the fall of the whole list,<sup>3</sup> shares of banks, foreign government bonds, railroad and industrial prices dropping from 5 to 675 (Suez Canal shares) points, largely during the second half of July.

As early as July 14 a semi-panic had occurred on the Vienna Bourse, heavy falls of prices taking place for the fourth time in twelve days. This coincided with a statement issued by the Austrian Foreign Office that "Austria Hungary *this time* has decided that its wishes must be at-

<sup>1</sup> *L'Économiste Français*, July 31, 1915, p. 139; *Commercial and Financial Chronicle*, Aug. 1, 1914, p. 299.

<sup>2</sup> LaChapelle, *Nos Finances pendant la guerre*, p. 156.

<sup>3</sup> *L'Économiste Français*, Nov. 21, 1914, p. 56.

<sup>4</sup> *Cote de Banque et Bourse*.

tended to and complied with to the full extent by Serbia.”<sup>1</sup> By the 23d prices were collapsing on all the Exchanges of Europe and America. There was a semi-panic on the Paris Bourse. There were rumors of failures of banks and of difficulties of a big credit institution in securing the return of funds advanced to Bulgaria.

On the 24th and 25th, the Paris market, overwhelmed by an avalanche of sales, collapsed entirely. The *Chambre de Compensation* (Coulisse) closed the Coulisse market. The Syndicate of bankers closed their market (Coulisse) and prescribed a limited time in which cash transactions might take place. The Parquet remained open ostensibly, but trading was exceedingly restricted and prices were only nominal.<sup>2</sup> Owing to the long-continued period of anxiety, the amount loaned on securities on the Bourse was the lowest of many years, estimated at some \$125,000,000, of which about \$80,000,000 was in reports. But there had been a sudden and terrifying fall in the value of these securities, and to make the next settlement of July 31st, the Agents demanded of the unfortunate holders who had bought at the higher prices, some \$50,000,000 as the balance of the reimbursement due short sellers and *reporteurs*. Many of the latter had already given notice to the Agents that they wished to be reimbursed at the coming settlement, but it was soon found that the purchasers, largely speculators for a rise, were not able to take up their purchases, and could not borrow elsewhere the sums due. This situation inevitably turned all eyes to the money market, to the big credit institutions that always employed many millions in *reports*, and to the Bank of France, all of which, as will be seen, were already having troubles of their own.<sup>3</sup>

<sup>1</sup> *Economist*, July 18, 1914.

<sup>2</sup> *Economist*, Aug. 1, 1914, p. 231.

<sup>3</sup> Georges LaChapelle, *Nos Finances pendant la guerre*, p. 118.

Some of these credit societies were undoubtedly embarrassed by considerable uncollectible loans of a nature indicated above. Working always on a minimum cash reserve they were in no condition to meet the heavy withdrawals by depositors that had already begun on the 24th. The deposits of the four leading credit companies totaled over \$1,000,000,000 December 31, 1913. For all the banks the deposits were estimated by Raphael George Levy to be some \$2,000,000,000. These credit societies had preceded the Bourse in their claim for credit accommodation from the Bank of France, their sole source of ready money. Many of their loans, of course, had been made to men now mobilized and to those living in territory soon to be invaded, from whom payments could hardly be expected; while, on the other hand, a large part of their deposits was payable on demand.

In a situation quite similar to that of the Bourse and the big credit banks were hundreds of savings banks of Paris and the Provinces, with deposits estimated at some \$1,000,000,000 and little ready cash. It was calculated that between the 25th of July and the 1st of August, withdrawals from the deposit and savings banks exceeded \$600,000,000.<sup>1</sup>

All these, however, were not the only visitors expected at the Bank of France. A secret agreement had been made between the Government and the bank, signed by M. Klotz, finance minister, and M. Pallain, governor of the bank (Nov. 11, 1911) at the time of the Agadir incident. This agreement provided that the bank should put at the disposal of the Government \$580,000,000 in measure as required from the date of mobilization. In return, the bank was to receive treasury notes running three months, and renewable at the

<sup>1</sup> *Économiste Européen*, Dec. 11, 1914, p. 242.

rate of 1 per cent per year. Since that date, it transpired, the bank had undertaken the responsibility of the financial preparations for war. It had followed minutely every indication of financial preparations for war on the part of Germany, and had taken careful measures to meet them. It had sent to its branches a secret circular, to be opened only in case of war, giving detailed instructions that later were everywhere carried out to the minute. It had had printed a stock of \$300,000,000 of 20 franc (\$4) and 5 franc notes to supply the demand for small change it foresaw would result from the hoarding of gold coin during the war. It had apportioned these notes territorially according to the probable demand, and they were issued everywhere at a given moment. This agreement, however, and the preparations made by the bank were then generally unknown, and although the weekly statement of the bank was open to all, and the bank's position was known to be sound, the moment was so fraught with dire possibilities, and the situation of all other financial institutions was so desperate that not without anxiety every mind arrived at the same conclusion, that all now depended on the Bank of France.

The situation of the Bank of France was in every way, good. Since 1870 when the payment of the billion-dollar indemnity to Germany drew the gold out of the peasants' socks, the Bank had steadily increased its bullion reserve. In 1905 it reached some \$520,000,000. July 30, 1914, it stood (including some silver) in round numbers at \$953,000,000. This sum was over 50 per cent of all liabilities, and only some \$383,000,000 less than the note issue (already swollen, in round numbers, to \$1,336,000,000 only \$24,000,000 under its legal limit of \$1,360,000,000), making

<sup>1</sup> LaChapelle, "La Banque de France," *Revue de Paris*, April 15, 1915, p. 822.



a reserve against notes of over 70 per cent. One powerful fact had impelled the Bank thus to build up its gold reserve. It was the visible evidence that the confidence of the nation in its national bank was well grounded. It far outweighed the commercial portfolio as the material rock on which rested the French system of money and credit. So long as confidence in the Bank existed it could issue its notes without limit to meet the exigencies of war without danger of a sudden storm of demands for redemption in coin.

The statement of the Bank for July 30 showed that recourse to its resources since July 23d had been on a large scale. Its note issue had jumped some \$154,000,000, its Paris discounts had increased in the same period over \$164,000,000, and its advances on public securities had grown by over \$8,000,000; it had also lost over \$4,000,000 of its gold reserve on which demands were increasing with every hour. To have attempted to meet at once all these diverse and conflicting demands, obviously in large part the result of panic, would have involved a dangerously great and immediate expansion of its note issue. This would possibly have imperilled confidence in the stability of the Bank and in the Government. In addition, such action would have brought about a rise in prices.

By Monday, the 27th, all continental exchanges were closed, or trading under close restrictions. The 28th of July, Austria declared war on Serbia. On August 1st Germany declared war on Russia, and the French president signed the decree of mobilization. The 28th, the *Syndic* went to the Finance Minister to talk over the situation, and on the 31st two meetings with the big bankers and the Bank of France were held. The bankers said that in view of their precarious situation they could not come to the aid of the Bourse while the Bank of France said it must reserve its resources for the national defense. The unanimous opinion

of the meeting was that the liquidation of the 31st should be postponed, and after consulting with the *Coulisse*, the Finance Minister hesitated no longer in concurring.

Immediately the Syndical Chamber proceeded to arrange its internal affairs to postpone the settlement, while the Finance Minister agreed to homologate the decision, postponing the settlement of July 31st to the end of August and later to the end of September, 1914.

Thereupon the big banks, who saw a large part of their funds immobilized in advances upon unsalable securities, and in non-liquidating *reports*, demanded a moratorium on deposits, the merchants making a similar demand for commercial paper.<sup>1</sup> Existing law authorized the postponement of the maturities of commercial paper, but was silent about deposits, hence the council of ministers refused at first to rescue the banks. Later, urged by M. Cochery, the council, on the plea of emergency and of immediate ratification by the Chamber of Deputies, decreed, on the night of July 31, August 1, a moratorium on bank deposits,<sup>2</sup> though this was clearly illegal.

The 5th of August, the date of the German declaration of war on France, an emergency law was passed, permitting the Government through successive decrees, beyond the two already made (some four in all), to suspend payment of coupons, interests, dividends, sums due on contract, of insurance, mortgages, saving deposits, (except \$20 per month to each depositor), to prorogate delays in payments of rents, etc., and even of installments due on the recent 3½ per cent loan. The whole economic life of the country was arrested, and all credit suspended. It is noteworthy that with the exception of the secret agreement of 1911 between the Govern-

<sup>1</sup> Jean Salames, *Le Moratorium*, 1915.

<sup>2</sup> LaChapelle, *Nos finances pendant la guerre*, p. 118.

ment and the Bank, which was confirmed, all of these emergency measures were improvised on the hour.

Most important of all for the Bank were the suspension of specie payments, and the decree raising the authorized note issue from \$1,360,000,000 to \$2,400,000,000. This enabled the bank, beside providing the Government with funds in accordance with the agreement of 1911, to continue discounting without restraint or conditions, bills offered it by the credit societies and others.<sup>1</sup>

Its discounts risen already on the

25 of July, 1914, to	\$310,800,000, increased rapidly from
day to day, on the 27 " " reaching	316,600,000
" " 28 " " "	336,400,000
" " 29 " " "	387,400,000
" " 30 " " "	488,800,000
" " 31 " " "	578,000,000
" " 1 " Aug., "	608,200,000
" " 2 " " "	685,200,000

These discounts, in spite of the moratorium which postponed the payment of the bills which the bank was admitting to discount, continued under certain conditions to grow, totaling August 4, some \$800,000,000, and finally, on October 1, \$995,200,000. By a decree of the 29th of August, however, these "frozen" bills were charged with interest at 5 per cent. The effect of this appeared in the reduction of the total held by the bank by \$120,000,000 from October 1 to December 10, 1914, although by April, 1915 there were still in the bank's portfolio some \$600,000,000 of bills prorogated. This policy of course freed the credit banks of deposit from the heavy burden of uncollectible bills, and provided them with resources to repay their depositors on demand, and thus hasten the day when they could recommence the discount of bills drawn after August 4, 1914 and not subject to the moratorium.

In fulfilling its agreement with the Government the Bank

<sup>1</sup> *Economist*, Aug. 15, 1914, p. 322.

by March, 1915 had advanced \$920,000,000 and by a new agreement signed at Bordeaux September 21, 1914, the total amount of advances was fixed at \$1,200,000,000 with interest at 1 per cent per year. This debt to the state and the commercial paper moratorium in effect entailed a forced issue of notes as in 1870. The result of this has not yet been so unfortunate as in the past, but recognizing the danger of inflation the minister of finance engaged the State to reimburse the Bank in the shortest possible time, either by means of ordinary budget receipts, or from the first loan, or from other extraordinary resources. A year after the cessation of hostilities, the renewal of the treasury notes turned over to the Bank in proportion to its advances, will be effected at the rate of 3 per cent per year. The profits of the extra 2 per cent, however, will not go directly to the stockholder, but will constitute a special fund to cover the losses that may be entailed by the "frozen" assets held in the Bank's portfolio.<sup>1</sup>

This policy of the state's guaranteeing directly the outcome of operations undertaken by the Bank on its own responsibility, in the words of M. Ribot, finance minister, could hardly be defended except as an action taken in a time of crisis, which would always remain exceptional.<sup>2</sup> France followed a precedent set a little before by the British Government, in guaranteeing the Bank of England against similar losses, and in consideration of a similar service rendered by the Bank to commerce and the banks and to the credit structure both of the present and the future.<sup>3</sup>

The weekly statement of July 30, 1914, was the last one

<sup>1</sup> LaChapelle, "La Banque de France," *La Revue de Paris*, Apr. 15, 1915, p. 822.

<sup>2</sup> Report of M. Ribot, December, 1914.

<sup>3</sup> *Nos Finances Pendant la Guerre*, p. 279.



published by the Bank until six months of war had passed, when the practice was definitely resumed. At this time, January 28, 1915, the metal reserve of the Bank was some \$999,800,000 as compared with \$953,000,000 at the end of the preceding July, to which, however, must be added liquid assets of some \$37,200,000 at the disposal of the Bank in foreign countries. Bills held subject to the moratorium were some \$636,400,000, loans to the State \$780,000,000, while the note circulation had risen from some \$1,333,600,000 to \$2,094,600,000. While the embarrassments of the credit banks had resulted eventually in the withdrawal of certain depositors and a large fall in deposits, the universal approval of, and confidence in the Bank of France had had the opposite effect, and its average of current deposits (*comptes courants*) had increased over \$200,000,000<sup>1</sup> from some \$189,514,372 on July 30, 1914, to \$530,115,246. Its current discounts, however, not overdue, had fallen from about \$300,000,000 July 25 in the early days of the crisis to \$239,000,000 in round numbers, while its advances on public securities were in round numbers practically the same (\$140,000,000) as in July 1914 and also July 1913.<sup>2</sup> The discount and loan rates of the Bank that had stood respectively at 3½ per cent and 4½ per cent from January 29, 1914, (previously 4 per cent and 5 per cent) were raised on July 30 to 4½ per cent and 5½ per cent and on August 1 to 6 per cent and 7 per cent, although the Bank of England's rate had gone to 10 per cent. August 20, the rates were lowered to 5 per cent and 6 per cent where they have since remained (January, 1919). The higher rate is naturally imposed for loans on securities, from the greater immobilization of capital that they entail.

In advance of reverting to the intimate Bourse situation

<sup>1</sup> *Nos finances pendant la guerre*, p. 236.

<sup>2</sup> *Vide* Weekly statements, Bank of France.

it is illuminating to trace the course of the French deposit banks whose position was of the greatest concern to the Bourse.<sup>1</sup> The liberal discount policy pursued by the Bank of France, and later the liberation of certain sums that they had employed in reports, did not suffice for many a day to allow these institutions to continue without the moratorium which was legally affirmed August 4, to apply to their deposits. They were not altogether exempted, however. The decree of August 4 allowed them to postpone the repayment of cash deposits and creditor balances on current account for 30 days, dating from August 1, 1914, under the following conditions. Any deposit or credit balance of \$50 or less could be entirely withdrawn during the 30 days by the depositor. On larger amounts, the holder could withdraw, in addition to this sum, only 5 per cent of the balance.

The provisions applied only to depositors of August 1, or earlier. Agricultural, commercial, industrial employers could withdraw each payday enough of their deposits to meet their payroll requirements, on presentation of the payroll. Requisitioned industries could withdraw the total sums due them. By successive decrees of progressively less lenient terms, repayment was postponed in turn to 30 days from September 1, then 30 days from October 1, then to December 31, and finally a last extension was decreed to the end of February. By the new decrees, the minimum of obligatory repayments was carried to \$200 and finally to 50 per cent or 75 per cent of the balance, depending upon whether it was desired for personal or for commercial and industrial use.<sup>2</sup> By the decree of August 29, mentioned heretofore, it was further decreed that the credit companies should pay 3 per cent interest on the "frozen deposits".<sup>3</sup>

<sup>1</sup> G. Manchez, *Sociétés de Dépôts*, pp. 1-169.

<sup>2</sup> Deseure, "Le Moratorium," *La Revue de Paris*, Mar. 1915, p. 166.

<sup>3</sup> Report of M. Ribot, 1914.

This provision hastened the action of the credit companies in reducing their debts. Early in December, the Crédit Lyonnais, Société Générale, Comptoir d'Éscompte, Crédit Industriel et Commercial, La Banque de l'Union Parisienne, and the Banque de Paris et de la Suisse, announced that beginning with January 15, they would no longer avail themselves of the moratorium.

In the review of the financial situation, a model of clarity and precise knowledge, written by finance minister Ribot while the French Government, early in December, 1914, was still at Bordeaux, mention is made of the decision just taken by some of the credit companies to begin again the discount of commercial paper on as large a scale as possible. Ribot also refers to criticisms of a lack of courage and confidence made against them, saying that with the general prostration of business (thousands of concerns had closed their doors since August 1) the demand for discounts was not great, cash transactions being the rule, and that moreover, the credit companies had preferred to wait until the Bank of France had declared itself prepared, as it had just done, to discount under the same conditions as before the war, the bills presented to it. Below is a comparison of certain items, in round numbers, in millions of francs, from the June 30, 1914 and 1915 statements of the four leading credit companies.<sup>1</sup>

	Cash		Bills Discounted		Reports and Secured Loans		Deposits and Credit Accounts	
	1914	1915	1914	1915	1914	1915	1914	1915
Crédit Lyonnais . . . .	231	808	1648	858*	357	254	2378	396
Société Générale . . .	160	102†	739	278†	403	475†	1644	1081†
Comptoir d'Éscompte	197	393	1017	560	249	181	1437	1083
Crédit Industriel et Commercial . . . . .	15	22	137	118	72	46	291	207

\* Includes Gov't treasury notes (*Bons de la Defense Nationale*).

† Dec. 31, 1914.

<sup>1</sup> *L'Économiste Français*, Aug. 1914 and 1915; May 1915.

Of all the great French financial institutions, the Bourse was undoubtedly the hardest hit by the sudden explosion of the war, and the reason is not difficult to comprehend. The objects of its transactions are exclusively long-term securities, representing for the most part a fixed capital. With the closing up of thousands of factories, shops and businesses of all kinds following the mobilization, with the complete stoppage of trade with Germany and Austria and Russia and its decline with other countries, and with the invasion of the richest and most industrialized provinces of France by the foe, it was inevitable that some interest and dividends should cease to be paid, perhaps forever. It was natural also that everyone, and especially those in need of funds, should wish to sell, and that none should wish to buy. Consequently it is not surprising that security prices, even those of the French Government, fell even lower and lower. Neither is it surprising that the buyers, who had contracted to purchase some \$100,000,000 at July prices, largely with the expectation of carrying them over from liquidation to liquidation on borrowed money until they could sell them to permanent investors at an advance, caught in the trap of war, were unable for many months to take up (pay for outright) their purchases, or even to pay up the ever-increasing "differences" between the prices of July 1914 and the actual prices, whatever they might be, or even to borrow by their sole efforts, the necessary sums.<sup>1</sup> The following table of a few leading shares indicates the general course of the market from July 2, 1914 to July 26, 1917, including prices of December 7, date of the reopening of the market for cash transactions after the closure early in September when the Government moved to Bordeaux.

<sup>1</sup> Cf. *L'Économiste Français*, August 8, 1914, p. 203.



	1914			1915	1916	1917
	July 2	July 30	Dec. 7	July 22	July 27	July 26
3 per cent. Rentes <i>perpetual</i> (at 95 in 1913)	83 fr. 75c.	78	72 fr. 50	69	64 fr. 30	61 fr. 10
Russian 5 per cent. . .	102 fr. 5	95 fr. 9	88 fr. 20	. . . . .	89 fr. 50	75 fr. 5
Bank of France shares.	4060	4400	4350 Prox.	4475	5175	5210
Crédit Lyonnais . . .	1592	1340	1050	1006	1220	1137
Suez Canal . . . . .	4975	4300	4000 Prox.	3990	4470	4500
Northern Ry. . . . .	1725	1249	1400 Prox.	1215	1485	1286
Paris-Lyons Ry. . . .	1235	1190	. . . . .	1052 Prox.	1165	990

Prices of July 30 to September 3 on the Parquet and from August 17 on the Coulisse, which was temporarily reopened on that date after the closure of July 24, were for cash, and were more or less nominal. For the great mass of securities the decree of August 29 postponed the liquidation 30 days, while the decree of September 27, 1914, in view of the apparent impossibility of the situation's being retrieved by the market itself, suspended indefinitely "all demands for repayment and all legal actions relative to time transactions previous to August 4, 1914 in rentes, Government obligations and other securities, as well as to related *report* operations." The amounts due were to be increased by interest at the rate of 5 per cent per year.<sup>2</sup>

This decree, on September 15, 1915, when the war was going better, and the reopening of the term market was in view, was modified as follows. The liquidation was to take place at the end of the month, 14 months from its original postponement. The differences between the prices of that date and those of July 15 and June 30 (for securities not quoted in the middlemonth) due from purchasers,

<sup>1</sup> "Marché, Financier hebdomadaire," *Économiste Européen*, etc.

<sup>2</sup> *Économiste Français*, Oct. 3, p. 383.

were made payable 10 per cent the day after the settlement, and 10 per cent at each end-of-month settlement for the next 9 months to June 30, 1916. Differences (caused by further falls in prices) due as the result of succeeding settlements (after September 1) were to be payable at once as in ordinary times. The accumulated moratorium interest was made payable from the 2nd of the following October. It was also provided that debtors could obtain further relief through appeal to the courts. Sums due in the future from the end of October to the end of June 1916 and also those accorded a further postponement by the courts were to bear interest at 6 per cent. All demands for payment from debtors with the colors, or from inhabitants of invaded provinces, were to be indefinitely postponed. All demands for payment and legal action not comprehended in the foregoing, except in regard to enemy subjects, were provisionally postponed.<sup>1</sup>

This decree was not issued without opposition. The 3 per cent rente which had stood at 83 francs 70c. at the June settlement of 1914 had declined to 68 fr. 25 c. on September 10, 1915, and reached 66 fr. 50 (4½ per cent basis) on September 30 following, a decline of 17 fr. 20. Many holders complained, and a deputy asserted vehemently that the liquidation price should be fixed as that of July 31, 1914, the date of the postponed July liquidation, but M. Ribot, pointing out that no actual settlement had taken place at that time, and that if it had, prices in the panic would have touched an unknown low level, stood firmly for the preservation of the original contracts.

In the meantime, between August 1914 and September 30, 1915, many relief measures had been proposed and some adopted. Indeed it was as the consequence of the final

<sup>1</sup> *Journal Officiel*, Sept. 16, 1916.

attainment of an accord between the Bourse, the Bank of France and the Government that it was decided to attempt the liquidation and prepare for the opening of the term market under a regime of limited prices. Some of the decisions had even been taken and put into effect as early as November. The first arrangement reached was in the nature of an offer by the Bank to pay over 40 per cent of the loans (not exceeding a total advance of \$40,000,000) for carrying forward securities, on the deposit with the Bank of the securities in question. The money was to be paid to the Agents de Change depositing securities on behalf of their clients, and acceptance of course was voluntary. The statutes governing the Bank did not allow it to make advances on all the diverse securities reported. Three signatures were required to enable the Bank to discount. Orders were to be drawn by Agents, acting for clients to whom sums were due, on the debtors represented by their Agents. These would be countersigned by the *Syndic* for the Syndical Chamber of the Compagnie, and discounted at the Bank up to 40 per cent of the sums *reported*, at 5 per cent. These sums were then to be turned over to capitalist *reporteurs* who desired to be reimbursed.<sup>1</sup> This partial solution left the *Coulisse* out in the cold, but that enterprising community (*Chambre Syndical de Banquiers*) promptly began the organization of a kind of solidarity of its own. They invested \$2,200,000 in National Defense notes (*bons*) and eventually used this security as the basis of a liquidation bank to assist in solving the "frozen" carry-overs on the *Coulisse*.<sup>2</sup> However, neither arrangement seemed to have had any immediate effect. The Agents de Change on their

<sup>1</sup> Cf. *L'Économiste Français*, Nov. 14, 1914, p. 495, and Nov. 21, 1914, p. 920.

<sup>2</sup> *Ibid.*, Nov. 28, 1914, p. 960.

part put difficulties in the way, and the *Coulisse* could not find lenders with the necessary capital. Thus matters dragged along through 1915, until, through rising prices here and there, and friendly adjustments, the total sum tied up at the middle of the year was estimated at some \$60,000,000.<sup>1</sup>

The efforts of M. Ribot, to whom it was a cause of anxiety in view of the coming loans, that this great national security market should be so long embarrassed, finally succeeded in bringing about the arrangements that led to fixing the date for the term settlement at September 30, 1915.

The Bank of France agreed to raise the limit of its advances offered to \$50,000,000. The *Parquet* issued \$15,000,000 of 6 per cent notes backed by the credit of the *Compagnie*, and these were easily placed. With these funds, to which was added by M. Ribot a contingent guarantee of the treasury of some \$15,000,000 in treasury notes renewable every three months for two years, the Agents not only offered to reimburse all *reporteurs* who desired it, but loaned \$7,000,000 to the *Coulisse* to enable it to reimburse creditors for the "differences" and the moratorium interest due them on *Coulisse* securities.

It was agreed that the settlements on the two markets should proceed simultaneously, as many operators and capitalist *reporteurs* were debtors on one and creditors on the other. The settlement was to be carried out according to the ordinary regulations. Purchasers of securities could take them up at any settlement, but if not able to do so, could continue to be officially *reported*.

One of the big problems of the Bourse had been the 3½ per cent *rentes* in which speculation had been particularly heavy on the *Coulisse de Rentes*. Some time before, Mr.

<sup>1</sup> Cf. *L'Économiste Français*, June 26, 1915.



Ribot, having agreed with the Bank of France that it should advance necessary sums on them, had made them convertible at 91 into 5 per cent notes of the National Defense (on a  $3\frac{1}{2}$  per cent basis) and he announced at this time that nearly all of them had been so converted. As to the floating 3 per cent rentes, always an important part of the carryovers, he stated that a great financial institution (Caisse de Dépôts et Consignations) had agreed to buy them as offered.<sup>1</sup> These efforts were successfully carried through and it soon appeared that the sums raised would not be needed, as the *reporteurs* did not ask reimbursement after the liquidation of the 30th. They had regained confidence and continued to support the market,<sup>2</sup> the business of which however, had shrunk to a minimum of its former total. In fact, it is improbable that French finance and the Paris Bourse will ever regain their old international position and prestige.

All these measures described in the preceding pages, important as they were in themselves, were subordinate or tributary to the first great financial necessity of a nation at war, the raising of funds for the national defense. Some account of this process, with which they were inextricably involved, is necessary to a clear comprehension of the measures described above.

When M. Ribot took office the 26th of August 1914, he found indeed that the task of financing the war was one of tremendous difficulties. The prostration of the banks and the Bourse, and the Government's lack of facilities, to say nothing of the \$160,000,000 loan which had just been issued and of which only \$76,000,000 had been paid up,

<sup>1</sup> *Nos Finances Pendant la Guerre*, p. 166.

<sup>2</sup> Cf. G. LaChapelle, "La Bourse de Paris," in *Revue de Paris*, July, 1915, p. 384.

deprived him of the power to issue an immediate and large loan in the usual way. As mentioned above, he went first to the Bank of France, and up to January 28, 1915, had relied on it to the extent of \$780,000,000.<sup>1</sup> His next step was to take care of the balance of the  $3\frac{1}{2}$  per cent rentes, as shown previously, by offering to exchange them for treasury notes (see below) on a  $3\frac{1}{2}$  per cent basis with a 5 per cent premium, and entrusting the Bank with their immediate rescue. This operation added \$92,400,000 (this amount was eventually paid up) to the Government's resources. He then inaugurated the issue of treasury notes denominated "*Bons de la Défense Nationale*" and conducted a great patriotic campaign for their purchase, reorganizing the agencies of the treasury for the placing of the notes, of which there were some 18 categories, directly with the ultimate buyers. The interest, at first 5 per cent, was payable in advance, and was deducted from the price of issue. It was virtually a huge discount operation of their Government's notes on the part of the French people. They were at first issued in denominations of \$20, \$100, and \$200, and later in as small amounts as \$1 and \$4 sold through the post offices. They matured in 3 months, 6 months, and 1 year and were exchangeable at par for future long-term loans. Later the rate on the three-month maturities was cut to 4 per cent and the Bank of France was empowered to discount any not having over three months to run. The issue met with general approval by the public, and by the 30th of June, 1915, over \$1,100,000,000 of these notes were in circulation, and by the 31st of August following, \$1,394,000,000 not including those placed in England and the United States. As the amount of these notes increased, especially the longer maturities, pre-

<sup>1</sup> *Bilan de Bank de France.*

parations were made for a longer term issue.<sup>1</sup> These notes or bonds bore 5 per cent interest, were to mature in 1925 and were emitted at 96 fr. 50. Subscriptions by the 30th of June were nominally over \$500,000,000 and by August, 1915, had exceeded \$600,000,000.<sup>2</sup>

By the 12th of November, 1915, according to M. Ribot,<sup>3</sup> the total of notes had reached \$1,670,000,000 and the total of bonds of 5 and 10 years maturities, had passed \$731,000,000, a combined total of over \$2,400,000,000. It was time for the great national loan that had been heralded from the first days of the war.

This loan which could be paid up in notes, short term bonds, the 3½ per cent rentes, or even the 3 per cent perpetual rentes was for an indefinite amount, at 5 per cent perpetual, but guaranteed against conversion up to January 1, 1931, and exempt from taxation. The issue price was fixed at 88 per cent for those who paid up in four successive installments by March 15, 1916, and at 87 fr. 25 for those settling at once. Subscription began November 25, 1915.<sup>4</sup> The total amount subscribed was \$3,260,000,000 of which \$1,273,600,000 was cash. The share of France in the Anglo-French loan placed in the United States had been \$259,000,000 and the gold loan in London had brought in \$302,400,000, the grand total being at this date (January 31, 1915), including advances from the Bank of France of \$1,060,000,000, some \$5,531,400,000.

By the 31st of July 1916, according to the report of M. Ribot to the Budget Committee,<sup>5</sup> the total receipts from loans including \$100,000,000 or more placed in the United

<sup>1</sup> "Loi de 10th et Décret du 13 Février 1915," *Journal Officiel*.

<sup>2</sup> *Nos Finances Pendant la Guerre*, p. 252.

<sup>3</sup> *Journal Officiel*, Nov. 13, 1915.

<sup>4</sup> *L'Économiste Français*, Nov. 27, 1915, p. 695.

<sup>5</sup> *Ibid.*, Sept. 1916, p. 383.

States, treasury notes sold in England of \$463,000,000, advances from the Bank of France of \$1,660,000,000 and from the Bank of Algeria of \$9,000,000, had reached some \$7,-653,000,000, while the total expenses of the Government, civil and military, from August 1, 1915 to December 31, 1916 were estimated at some \$12,300,000,000. A new loan was necessary. It was issued, beginning October 5 and closing exactly on October 29, 1916. The rate was 5 per cent perpetual, price 88 fr. 75 or 87 fr. 50 for holders of the preceding 5 per cent loan whose subscription was full paid. It was not to be subject to conversion before January 1, 1931 and was to be free from all taxes. On the 11th of December M. Ribot announced in the Chamber of Deputies that total nominal subscriptions were some \$2,-300,000,000.

From November 26 to December 6, 1917 subscriptions were taken for a third national perpetual loan of \$2,500,-000,000 real capital. The rate was fixed at 4 per cent, the price (for immediate payment) at 68 fr. 60, and the *rentes* were exempt from taxation. In addition a sinking fund was provided to retire them. The French subscription alone was \$2,055,300,000.<sup>1</sup>

A report on the 1918 budget by Louis Main<sup>2</sup> estimated the total expenditures of the Government from August 1, 1914 to December 31, 1917, at \$21,300,000,000, met in part by \$4,000,000,000 in notes and by \$6,200,000,000 from the three big loans.

In the early part of 1918, such were the straits to which the treasury was reduced, new 5 per cent bonds (*obligations*) of the national defense were issued at par, but with the advantage of being payable at the will of the holder at

<sup>1</sup> M. Klotz, Finance Minister, in Chamber of Deputies, Dec. 28.

<sup>2</sup> *L'Économiste Français*, Dec. 1917.



the Bank of France, at the end of the first year, or at the end of any six months thereafter. If held for the full period of maturity, 5 years, a premium of six months additional interest was offered.<sup>1</sup>

In September 1918, the fourth and last war loan was authorized.<sup>2</sup> It was a 4 per cent perpetual rente emitted from October 20 to November 24 at 70 fr. 80. The unpaid coupons, not to exceed 50 per cent of subscriptions, of the loans emitted or guaranteed by Russia were made receivable in payment, as were also of course, the treasury notes, and coupons and certificates, under certain conditions, of previous bonds, and *rentes*. The loan was an enormous success. The total amount subscribed was over \$6,000,000,000 in nominal capital or a real return of over \$4,000,000,000 of which half was expected to be in new money.<sup>3</sup> It is understood that some \$50,000,000 of Russian coupons were turned in. There were 7,000,000 subscribers, the average amount of the subscriptions being \$140. Some \$104,000,000 were allotted to the London market and oversubscribed on the first day of issue. Treasury notes to the extent of \$2,400,000,000 were converted into the new issue, more than had been absorbed by the three previous issues together, although some \$6,600,000,000 are still outstanding.<sup>4</sup>

Over \$10,800,000,000 (actual capital received) or nearly \$12,000,000,000 nominal (actual repayments) had been comprised in the four great war loans at 5 per cent and 4 per cent. The total debt, according to Mr. Ribot, was \$34,000,000,000 (address in Senate December 1918) as compared with \$6,400,000,000 before the war. Of the present

<sup>1</sup> *L'Économiste Français*, May 4, 1918, p. 571.

<sup>2</sup> *Journal Officiel*, Sept. 26.

<sup>3</sup> Announcement of M. Klotz, Finance Minister, Dec. and Jan.

<sup>4</sup> *Economist*, Dec. 28, 1918, Jan. 4, 1919.

debt outstanding \$5,400,000,000 was placed in other countries.<sup>1</sup> It was forecast by M. Ribot that the French budget for 1919 would be \$3,400,000,000. He estimated the private incomes of France at perhaps \$8,000,000,000 as compared with an estimate of \$6,000,000,000 before the war,<sup>2</sup> the increase in part or whole being due, of course, to the monetary inflation, the note issue of the Bank of France on November 14, three days after the signing of the armistice being well over \$6,000,000,000.

The "frozen" bills discounted by the Bank had declined in amount to some \$200,000,000 and its gold and silver (\$60,000,000) stocks increased to \$1,153,347,368 (a little over 10 per cent of the note circulation) partly held abroad, while the 3 per cent rente, the gauge of France's credit, that had fallen in the dark days of March 1918 to 56 fr. 75, stood November 1, 1918 at 62 fr. 3.<sup>3</sup>

<sup>1</sup> M. Klotz, address before the French Senate, 1918.

<sup>2</sup> *Economist*, Dec. 7, Dec. 28, 1918, pp. 772 and 880 respectively.

<sup>3</sup> *Bank of France Statement*, and *Cote Vidal*.

## CHAPTER VI

### CONCLUSION

To contrast fundamental institutions of different countries, of a financial or other nature, is nearly as difficult as to contrast the national characters of which they are the outgrowth, and in part the expression. In comparing American institutions with those of England and France and Germany, it is to be borne in mind that it is, first, a comparison of American with European institutions; and secondly, excluding England, that it is a comparison of American institutions, evolved largely from English models, with continental European institutions springing from entirely different historical backgrounds.

Up to the recent Russian revolution, no European country had been so thoroughly democratized as the United States. Everywhere in Europe, vestiges of the long continued upper-class privileges survive in all forms of business where they would not be understood or tolerated in this country. The tenacious grasp of the modern prototypes of the old clerical and noble class on these slowly slipping privileges has acted not only to hold back democratization of industry and finance, but also as a brake on all progress as well, especially when progress, even merely in the sense of efficiency, connoted any extensive change. This observation applies more to the Latin and Slavic countries and to England than to Germany where indeed autocracy had rather by immense effort, harnessed efficiency to its car. This lack of a desire to change, even to progress, born of inertia and

fear of losing some privileged position, is particularly noticeable in financial institutions.

In France the Agents de Change have a century-old legal monopoly of dealing in listed securities for a commission, and by the same token may not buy and sell on their own account. Hence the immortality of the *Coulisse* whose members act as brokers in unlisted securities, and, by connivance with the official Agents, in listed securities as well. They also act as principal in dealings in all securities. The *Coulisse's* function of buying and selling on its own account is performed with some formality on the London Exchange by a definite class of jobbers who ostensibly do not deal directly with the public, but only with brokers representing clients. In New York any broker may buy or sell without formality in the open market for himself as principal, or for clients for a commission.

The merits of the three systems have been variously discussed. There are opportunities for collusion between brokers or between the various groups of market men to defraud their clients under each system, and, as in all business, the integrity of the operator, the vigilance of the customers, and full publicity of pertinent facts for the benefit of the latter are the best safeguards against dishonesty.

In Paris the Agents, and to a less degree the *Coulissiers*, are responsible parties. To belong to any of the formal organizations, a broker must possess a minimum capital. In New York as on the Paris Parquet, the number of seats is limited and the value of each ranges from \$40,000 to \$100,000. On the New York curb, however, which corresponds to the Paris and London unlisted markets, and which no one pretends to defend without reserve, there is no limit to membership, and one might add, no qualifications, though the volume of sales at times makes it one of the biggest markets in the world. In the London Exchange



membership is also unlimited, though certain conditions are imposed. The amount of capital required is small, and that responsibility on contracts is less is shown by comparatively numerous failures.

The onlooker on the floor of the three exchanges is chiefly impressed with the exceptional activity of the New York market, and of the Yankee market in London. In Paris one stock at a time is "called" and traded in till no more bids or offers meet in a common price. In London the brokers seek out a jobber or jobbers in the stock they wish to trade in, and dicker with them individually, while in New York, everyone rushes in apparently indiscriminately to buy or sell one or many stocks, either as principal or as agent, though it is true that there has been a natural development in New York of skilled "room traders" who take no orders from the public, but act entirely as jobbers.

The trading principles of all three markets are fundamentally the same if the whole market in each city is considered. An important cause of the divergence in practice is the tremendous number of different securities listed in Paris and London as compared with New York, whose securities up to the present have been chiefly those of American enterprises. As American industry is notorious for its centralization, it follows that enormous amounts of capital are represented by comparatively few kinds of securities, with the tendency in this direction increasing, a fact that diminishes the need for so many skilled specialists in the stock market. This is a democratic and efficient practice that contrasts favorably with the multiplicity and intricacy of the types of securities one finds in certain foreign countries.

The speculative public in all countries is divided into two general classes, one of which, most numerous on occasions of prosperity in certain industries, is not noted for its per-

spicacity, while the other class is distinguished by an extraordinary amount of that very quality. In the United States the general interest in speculation and the democratic atmosphere has caused the alertness of the speculator or investor to be supplemented by devices for increasing the fruits thereof. To a greater extent than anywhere else in the world, he is quickly and accurately supplied through the stock ticker and news ticker services with market information. The amount and price of each sale is recorded on a running tape in every broker's office and elsewhere, and the daily papers print the total sales of each day while shrewd surmises are always afloat as to the identity even of important buyers and sellers. For certain reasons known to themselves the powers that be in Paris and London give out no total of daily sales. The trouble, or expense, or lack of interest on the part of the public, or danger to uninformed persons of panicky tendencies are given as reasons. But the advantage of the New York method in securing full publicity of transactions is obvious.

The rigid government regulation of the continental bourses is a practice that finds no counterpart in the English speaking countries where each man is supposed financially to look out for himself. In France government regulation of the Bourse has had a long historical evolution. It is a vestige of the old tributary position of commerce and finance to the noble and clerical governing class now being retained and strengthened for other reasons. In Germany government regulation is of recent origin and is clearly due to the greater socialization of industry and finance in that country (*vide* introduction chapter) under a power-centralizing and efficiency-worshipping autocracy.

The ever vigilant factor, however, that really controls the stock markets and their operators is the banks, especially the financial banks, and it is significant that reform legis-

lation in Germany not only did not diminish, but actually increased the power and influence of the big German banks over market operations. There is no doubt that there is everywhere a concert among the banks in regard to stock-exchange loans, their amount, the securities favored, the brokers and customers favored or discriminated against, the rate of interest, the listing of securities and a variety of other matters where the common interests of the money lenders are affected. As indicated previously, our antiquated banking and monetary system had constrained the New York banks to make only day to day loans on the stock exchange whereas all European stock loans run for longer periods, usually two weeks or one month. These time loans, with their consistently low rate of interest, have long been a contrast to our call-loan system with its fluctuating interest rate which at times goes above 100 per cent. Only recently (June 1919) the interest rate rose on a wide bull market to 15 per cent, proof that our discount market or clearing machinery is not yet working smoothly in sufficient volume.

It is in this relation of the banks to the stock market that we have yet the most to learn from European practice. To extend bank loans from overnight to bi-monthly or monthly periods will bring about an immense saving in accounting routine, in money, and in financial ability to dodge the lightning, which would then strike only at known intervals. Before this constructive reform, must come a preliminary overhauling of the system of clearing stocks by interposing an efficient clearing mechanism between each broker and all his confreres at each settlement of accounts, a mechanism perfected to the extent of being readily applicable to the huge amount of clearance that will pile up with a term settlement, and one that can be coordinated with a union of stock-exchange banks to handle stock loans on a more effective and safe basis than exists at present.

Whether such a reform, as it undoubtedly must be considered from the banking point of view, would be accompanied by changes in the rate of commissions and in the practice of brokers acting as middlemen in credit, borrowing immense sums from the banks and loaning them piecemeal to customers, is a moot question. In Paris and Berlin, bankers, so far as the rate of interest is concerned, loan direct to the speculators. In London, on the other hand, the same system prevails as in New York, the broker and jobber making a profit on the rate paid and charged. In Berlin so careful a watch is kept over the national interest, that restrictions placed on the rate that might be paid on funds borrowed from foreign countries, prevented German speculators from competing with each other for non-German accommodation.

A change in this matter of credit organization would work a fundamental alteration in the character of our brokerage firms, aligning them on the one hand more definitely in the interests of their customers, on whose commissions they would be solely dependent, and on the other hand, tending to eliminate them altogether by bringing the banks into closer contact with the trading community.



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## VITA

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THE writer was born August 14, 1885, in Chestertown, Warren County, New York. He attended the public schools there and in Glens Falls, New York, until June, 1904, when he was graduated from the Glens Falls Academy with 109 regents counts, and appointed to a state scholarship for four years at Cornell University. Graduated from the latter in 1908 as an A.B. he held a teaching fellowship at Indiana University, receiving his A. M. in Sociology in 1909. The following years, he was an Assistant in Economics in the University of Illinois and the University of Pennsylvania, a Scholar at Columbia, and in 1914-15 Assistant Professor of Economics at Princeton University. Seminars with Professors Weatherly, Kinley, Patten and Seligman were attended.

The writer further spent two years in the bond department of Knauth, Nachod and Kuhne, international bankers of New York City, and over a year as financial and commercial expert with the Bureau of Foreign and Domestic Commerce, Washington, D. C.















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